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U.S.–U.S.S.R. ECONOMIC RELATIONS

HEARING

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

FIRST SESSION

OCTOBER 4, 1989

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U.S.-U.S.S.R. ECONOMIC RELATIONS

WEDNESDAY, OCTOBER 4, 1989

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 9:51 a.m. in room SD-215, Dirksen Senate Office Building, Hon. Lloyd Bentsen (chairman of the committee) presiding.

Also present: Senators Moynihan, Baucus, Bradley, Rockefeller, Roth, Danforth, Chafee, Heinz, and Symms.

[The press release announcing the hearing follows:]

[Press Release No. H-47, September 20, 1989]

SENATOR BENTSEN ANNOUNCES HEARING ON U.S.-U.S.S.R. ECONOMIC RELATIONS; SECRETARY OF STATE BAKER TO BE THE WITNESS, FINANCE CHAIRMAN SAYS

WASHINGTON, DC—Senator Lloyd Bentsen, Chairman of the Senate Finance Committee, said Wednesday that Secretary of State James Baker will be the witness for a hearing on changes in economic relationships between the U.S. and U.S.S.R.

The hearing is scheduled for *10 a.m. on Wednesday, October 4, 1989* in Room SD-215 Dirksen Senate Office Building.

Bentsen (D., Texas) said Secretary Baker's testimony will provide the Committee with an important perspective on overall U.S.-U.S.S.R. relations, including a look at the nations' economic relationship.

Bentsen said he likely will call additional hearings on U.S.-Soviet trade relations. These hearings will help the Committee, which has jurisdiction over most trade legislation in the Senate, to consider appropriate actions.

"President Bush has announced that under certain conditions he would consider waiving the Jackson-Vanik amendment, which is an obstacle to granting Most Favored Nation status to the Soviet Union. That would pave the way to negotiating a bilateral trade agreement with the Soviets," Bentsen said.

"This hearing will help us explore what our trade relations with the U.S.S.R. should be, and I'm looking forward to receiving Secretary Baker's thoughts on our overall relationship as it affects our trade relationship," Bentsen said.

Bentsen said the Soviet Union holds some potential as a trading partner—something other nations are beginning to take advantage of—but the U.S. must move cautiously if it pursues a treaty with the U.S.S.R.

"Other countries, such as Japan and the European Community, are moving into the Soviet market, and I want to make sure the U.S. doesn't get left behind," Bentsen said.

"At the same time, we need to insure that trade with the Soviets is of long term benefit to our country. Too many times and with too many countries, our trade relationships have amounted to nothing more than foreign aid programs, and we don't need that," Bentsen said.

"But we must know exactly what we're doing, and move in an informed, pragmatic way. That means we need as much information as possible on the various aspects of increased trade between the U.S. and the U.S.S.R.," Senator Bentsen said.

The only witness for this hearing will be Secretary Baker.

OPENING STATEMENT OF HON. LLOYD BENTSEN, A U.S. SENATOR FROM TEXAS, CHAIRMAN, SENATE FINANCE COMMITTEE

The CHAIRMAN. This hearing will come to order.

Mr. Secretary, you are looking at the survivors this morning, as my friend from New York has stated. [Laughter.]

We were in this room until 3:00 o'clock this morning. We have a great affection for it. And we appreciate very much your being here with all your many other responsibilities.

Over these last 4 years we have really seen some remarkable changes in the Soviet Union. Most importantly, we have seen emigration increase. As a result, the President said earlier this year that he would be willing to waive the stipulations of the Jackson-Vanik amendment under circumstances that are now foreseeable. I agree. We ought to reinforce the behavior that we have been seeking.

Fifteen years ago I was a cosponsor of Jackson-Vanik. At that time the protection of fundamental human rights was an American ideal and not yet a foreign policy. Since then, human rights have become a cornerstone of our foreign policy widely supported by members of both political parties. So all Americans are pleased to see improvements in human rights protection in the Soviet Union. But under our law there is more to our foreign policy than human rights. There is the pragmatic business side as well. And to get our most favored nation tariff treatment, a communist country must go beyond the Jackson-Vanik standard to negotiate a trade agreement with us that makes sense in economic terms. In this area there are some hopeful signs in the Soviet Union. In fact, some of the most important changes that Mr. Gorbachev has proposed, and some of the least noticed and least understood have been proposals for economic reform. We are going to be very pleased to hear your comments on that one.

Some of these reforms are supposed to make it easier to export to the Soviet Union. And, of course, it is not a one-way offer. I have never yet heard anybody accuse Mr. Gorbachev of being stupid. He has also been asking for improved access to Western markets and membership in Western economic institutions. And I look forward to hearing your comments on that.

A Soviet Union truly open to trade would be the ideal, but we cannot be idealistic about economic reform in the Soviet Union. It is important for us neither to overrate recent economic developments in the Soviet Union nor to underrate them. We have to try to be realistic, and that means recognizing Mr. Gorbachev's proposed real changes. He sure hasn't proposed making his country over into a Western market economy. The situation may not be ideal, but the question is can we do some business on that basis?

Our economic competition in the European Community certainly thinks that they can and they are working hard at that in negotiating a new trade agreement with the Soviet Union. In fact, over the last few years, we Americans have been able to work out trade agreements covering wheat, corn, soybeans with the Soviets, agreements that mesh our economy with the centrally planned economy of the Soviet Union. Three-fourths of our exports to the Soviet Union occur under those agreements.

So once we are satisfied on human rights and national security we have to look to what we can do in this situation to improve the welfare of the American worker and the American farmer. And all of those issues concern this committee. The Jackson-Vanik amendment is a provision in the Trade Act of 1974 and waivers of that are subject to the review of this committee. And we also, of course, have the responsibility for trade in the Senate.

The Trade Act of 1988 gives us the power to review the question of GATT membership for the Soviet Union, and it also makes revisions of GATT rules on State trading a priority for the Uruguay Round. Any trade agreement negotiated by the administration with the Soviet Union will be reviewable in this committee, and any changes in Section 406 will have to be considered by this committee. That is why I have asked Secretary Baker to brief us on economic relations with the Soviet Union.

Mr. Secretary, I believe this is your first time to appear before a Senate committee to report to a committee of Congress on your discussions in Wyoming with Mr. Shevardnadze. Now this committee is ready to work with the administration on economic relations with the Soviet Union and we will be looking forward to hearing your comments.

Senator Moynihan?

Senator MOYNIHAN. I would like to welcome the Secretary.

The CHAIRMAN. Thank you.

Are there any comments?

Senator BRADLEY. Mr. Chairman, no. I would just like to place in the record a speech made last week at a conference here in Washington by me.

The CHAIRMAN. Yes, of course. Without objection.

[The speech appears in the appendix.]

The CHAIRMAN. Mr. Secretary, you are on. We are delighted to have you.

STATEMENT OF HON. JAMES A. BAKER, III, SECRETARY OF STATE

Secretary BAKER. Mr. Chairman, surviving members of the committee, it is a real pleasure for me to once again appear before the Finance Committee. But I should hasten to add that I am glad the invitation is to testify on a topic that is far different from the ones we used to work on together. I am pleased to be here today to talk to you about the Soviet Union's economy rather than the economy of the United States.

I have prepared a lengthy written statement, Mr. Chairman. And as I mentioned to you in the back room, I do not intend to take you through all of it this morning, but I would certainly commend it to you because I truthfully think it is one of the most interesting that I have presented in the many years that I have worked with the Congress.

Since 1985, Mr. Chairman, the Soviet Union has pursued an extraordinary effort at internal reform, as you mentioned in your opening comments, an effort that is now known to the world as "perestroika" and "glasnost."

Perestroika and glasnost are an inextricable mix of political, economic, and legal measures. And as President Gorbachev has stated, overhauling the Soviet economy will require a transformation of the political and legal landscape as well as the economic landscape. In other words, a true revolution.

The president of the Soviet Union and his allies have had to define and legitimate a new Soviet market system. Frequently, they describe it as a socialist market. You, yourself, pointed out in your opening comments that it is something different than the completely free and open market that we have found so successful in the West. But this effort requires much more than a technically sound program. It necessitates an overhaul really of the fundamental thinking and attitudes of millions of People. Indeed, it involves a reconsideration of Soviet doctrine in several sensitive areas. For instance, perestroika requires a renegotiation of the Soviet social contract.

The Soviet people had received extraordinary security and distributive equality, except for the privileged and the corrupt, which was a growing group, but they received that at the price of political dictatorship, the absence of civil liberties, few economic incentives and really seriously limited economic opportunity.

One dilemma of the traditional Soviet economy was summed up in the cynical phrase of Soviet workers when they say, "They pretend to pay us and we pretend to work."

So it would be a mistake, I think, to analyze perestroika as simply an economic phenomenon. The course set by President Gorbachev involves changes in political structure, ideology, legal practices and popular attitudes, as well, of course, as the economy. Much of it is experimental, It is designed to cope with problems of the moment, and, frankly, it is a staggering task.

Given the magnitude of the challenge, it should not be surprising that perestroika has turned out not to be one reform program but an amalgam of many. It is an ongoing experiment relying on a fair amount of "seat of the pants" logic. It has reflected compromises made necessary by the Soviet system of collective leadership. It has incorporated contradictions because different factions in the Soviet Union have pressed alternative solutions. These compromises and contradictions have created ambiguities, which, in turn, have opened opportunities for bureaucratic reinterpretations and obstructions. The lack of an internally consistent, comprehensive and integrated reform program, while it is understandable, remains a major, ongoing weakness.

Gorbachev's initial reform program followed the lead of his patron, Andropov. He emphasized "uskoreniye" "acceleration." The aim there was to accelerate growth through more intensive use of inputs rather than just massing additional resources.

The elements of the program included higher growth targets, increased investment in equipment, the well-known anti-alcohol campaign and a worker discipline campaign. But, of course, as we all know, it did not work.

By 1987, Gorbachev was ready to move beyond the Andropovian approach to reform. He introduced major reform measures at the June 1987 Central Committee Plenum, and these measures addressed a number of sectors and issues of economic organization.

While they were broad based, these changes were neither comprehensive nor integrated with one another. Indeed, the nature of collective leadership and adaptations to ideology produced compromises, which at times led to very contradictory results.

My statement describes these efforts in detail, but let me select just one, the treatment of cooperatives, to give you some flavor of the problem.

Cooperatives were supposed to give a quick boost to sales and production by permitting groups of workers to enjoy the fruits of their labors. They could also be an evolving form of private ownership. Yet compromises produced a legal and business environment that one might have designed with a purpose to kill the cooperative movement.

First, planners still channeled most inputs to State firms, forcing cooperatives to operate through illegal and higher priced black markets. This hurt the public legitimacy of coops.

Second, in the absence of any real competition, many coops earned monopoly profits which further eroded any chance of public support. Since many coops operated as trading intermediaries they also faced the wrath that producers and consumers usually reserve for middlemen.

Third, the government's reaction was to grant local authorities wide latitude in taxing coops, which in some parts of the Soviet Union is likely to lead to harsh taxes. In addition, the government forbade coops from operating in certain sectors, for instance, medicine, printing, and so forth, that had proven popular and profitable.

Fourth, the very tenuousness of the coops' existence has led many to distribute profits instead of trying to reinvest those profits. So the future of coops remains uncertain.

They were a prime target of union complaints during the recent strikes in the Soviet Union. The Supreme Soviet just recently only narrowly defeated, 205 to 190, a proposal to close all trading cooperatives.

So in summary, the piecemeal reforms that were attempted in 1987 proved inadequate. The reforms ran into bottlenecks and vested interests. Government spending increased and revenues fell. The large deficit was financed through printing more ruble, which, of course, sent inflation climbing. People no longer trusted the value of the rubles, so they began to exchange their currency for real assets as quickly as possible. This hoarding of goods exacerbated the shortages that existed anyway. But failure has provided a clear lesson. Reform has got to be comprehensive, economically and politically comprehensive, if it is going to have any reasonable chance of success.

There are various possible comprehensive strategies, but each requires a shift from the ad hoc adjustment of the past, and therein lies the rub. It will be exceedingly difficult, Mr. Chairman, for a collective leadership to develop a comprehensive effort. This should come as no surprise. It is hard even under our decentralized political system to develop comprehensive programs. But our basic political and economic systems work. The Soviet Union's do not. And many members of the Soviet political leadership remain ideologically resistant to the reforms that are necessary.

I don't think that it is my place, Mr. Chairman, to offer detailed prescriptions to the Soviets. Their society, as I have pointed out, is vastly different than ours. But a few economic points stand out to me personally.

First of all, it seems obvious that price reform, market price reform, is the key. Whatever the problem, the solution keeps coming back to market prices. In addition, the introduction of market prices is an important step toward achieving a convertible ruble, which is necessary for effective competitive interaction by the Soviet economy with the rest of the international economy.

Second, there is a reasonable case that price reform cannot proceed until the Soviets have stabilized the value of the ruble. The massive deficits financed by printing rubles, and the large number of rubles that are now chasing too few goods have led Soviet citizens to prefer real assets to monetary assets of constantly declining value.

If prices were freed at present, the demand for goods would send prices soaring. The Soviets refer to this problem as the "ruble overhang." Policies to absorb excessive rubles might include but not necessarily be limited to selling state-owned assets, such as apartments, equipment and land; issuing financial instruments with positive rates of return after inflation; and possibly selling consumer good imports at substantial markups. The sizable Soviet gold stocks might also be used to back the value of the ruble or government bonds. Since the Soviets are major gold producers, they could use future sold production to regulate their money supply.

The Soviets would need to complement these monetary policies with fiscal restraint to avoid recreating a new ruble overhang. Spending restraints could come from cutting subsidies to firm, cutting defense spending, cutting expenditures on massive for show construction projects and, of course, cutting military aid to foreign clients. For example, the billions of dollars given to Cuba, Nicaragua, Afghanistan, Ethiopia, Vietnam, and Cambodia.

Third, market prices and macroeconomic stabilization measures will not suffice in the absence of microeconomic reforms in industrial organization. Enterprises and cooperatives in the Soviet Union are going to have to be free to compete or it will not work. Monopolies are going to have to end. State controls should not limit the ease of entry and exit of competitors. Market signals—the real key here, Mr. Chairman is market signals, and not central planners, are going to have to allocate resources.

Fourth, the Supreme Soviet must establish legally certain property rights. While ideology in the Soviet Union may constrain references to private property, other arrangements may be able to substitute at least for a time, such as transferable, long-term leaseholds. Also, the effectiveness of any program to sell government assets obviously depend on the rights of the purchasers to hold, use, improve and dispose of those assets.

Fifth, the Soviet Union will have to move carefully in substituting tax and regulatory policies for confiscation and production directives, such as exist under the current system.

And, finally, Mr. Chairman, the Soviet Union will need to develop a safety net that protects those who cannot fend for themselves in the changed economic environment.

This administration wants perestroika to succeed. We believe it can help create a more open society, institutionalize interests that will resist military adventurism, establish claims for societal resources that were previously channeled into the military, and transform the Soviet Union into a more cooperative contributor to the international community.

It is in our long-term interest for more people around the globe to share the core values which we in the West embrace. So we welcome the Soviet Union's movement toward those values.

We must be realistic I think, however, in assessing what actual influence we can have on the success of perestroika. As President Gorbachev has stated on numerous occasions, the success of Soviet restructuring depends in the final analysis on the Soviet people themselves. Nevertheless, I think our policy can support President Gorbachev's reform policies in what I would characterize as six mutually advantageous ways.

First, and above all, I think it is apparent that Gorbachev needs a stable international environment so that he can focus the energies of his country on internal change. We have tried to create these conditions by placing increased emphasis on working with the Soviets to resolve the dangerous regional conflicts that dot the globe. We remain, Mr. Chairman, though, somewhat dismayed at the pattern of ongoing Soviet military support for conflict in many of the regions I have mentioned.

Second, arms control that reduces the risk of conflict can help both of us. Appropriate arms control agreements help stabilize the international environment by reducing the risk of surprise attack. Such agreements can also reduce the burden of defense spending. The "peace dividend" that would accrue would be especially notable for the Soviets if we are able to reach an agreement to reduce conventional forces. And, of course, as you know, Mr. Chairman, we also seek mutually—mutually—beneficial results in START, the defense and space talks, chemical weapons, and nuclear testing.

Third, the peaceful achievement of reform in Eastern Europe would simultaneously serve as a model to boost Soviet reformers, enable the Soviets to reduce further their military presence, and peacefully stabilize the region through freedom.

Fourth, our efforts to institutionalize human rights and the rule of law and to encourage common action on transnational or global dangers like drugs, the environment, and terrorism can help build a more pluralistic and more open Soviet society. Pluralistic institutions, in turn, strengthen the foundations for the success of perestroika and make its gains more difficult to reverse.

Indeed, this is the logic behind the President's May 12 initiative on Jackson-Vanik. If the Soviets enact and implement emigration legislation which is consistent with international standards we will work with the Congress to seek a waiver of Jackson-Vanik, paving the way for the grant of most favored nation trading status. Indeed, we hope the Supreme Soviet will codify the new open Soviet emigration policies later this year or early next year so that we can move forward on this issue.

Fifth, we may be able to offer the Soviets some technical economic assistance as they struggle with the massive task of restructuring their economy.

And, finally, we can challenge the Soviets to implement the domestic economic changes that are the critical predicate for increased international economic interaction.

It is my opinion, however, Mr. Chairman, that the Soviet economic system remains significantly incompatible with the operations of institutions like the GATT, the IMF, and the World Bank. Furthermore, given the size of the Soviet Union, its membership could prove disruptive to the Bretton Woods institutions, especially if the long-term Soviet commitment to the values represented by those institutions remains uncertain.

While the Soviet Union is still evolving toward Western political and market values, I believe we best serve ourselves and the Soviets by insisting that trade and other economic relations be conducted on a commercial basis. Operating under these terms, we welcome mutually beneficial, non-strategic trade. Easier economic terms are neither in our interest, nor would they speed the cause of Soviet reform.

President Gorbachev wants to remake the Soviet Union. That is what perestroika and glasnost are all about. That may not have been his aim, Mr. Chairman, in 1985, but the failures of the early reform efforts convinced him and his colleagues that change has got to dig deeper into Soviet society. These are utilitarian, purposeful, and determined men. Yet we should recognize that they are not, in our view at least, pursuing freedom for freedom's sake. Their aim is to modernize the Soviet Union, but their frame of reference is not the age of reason or the spirit of enlightenment. They are the descendants of other great Russian modernizers like Peter the Great and Alexander II, fundamentally rooted in the unique Russian experience.

Gorbachev has not been deterred by the failure to produce economic results. To the contrary, so far at least his recourse when facing obstacles, as we saw once again this summer, is to use problems to further consolidate his authority. Then he takes steps to press political and economic reforms further. He does not fold; he does not call. He simply raises the stakes.

Nevertheless, Gorbachev and his allies still must operate as members of a collective leadership with very different notions of what reform means. So the leadership decisions coming out of the Soviet Union are often compromises and the results are often confusing.

This ad hoc policy development process is a severe handicap when the objective is to overhaul a society's attitudes toward work, competition, property, responsibility and freedom. Policy is often incoherent. People remain uncertain. No one really knows what the future will bring.

It would be a mistake, however, I think to conclude that the challenges are too daunting or that the impediments to success are too great. So far, President Gorbachev has secured greater power over the years, and he reveals every intention to "stay the course." But the jury is still out, I think, on whether he will ultimately succeed or fail.

So, yes, Mr. Chairman, we do want perestroika and glasnost to succeed, but we should also recognize the limits of our influence.

This is an internal revolution. Its success depends ultimately on the Soviet people.

For our part, the United States should—and it will—pursue our own national interest. But that interest does not exist in isolation from the events which are taking place in the Soviet Union and in Eastern Europe. So I see our task as a creative search for points of mutual—and again I would emphasize the mutual—advantage, areas where both we and the Soviets can gain.

In my opinion, Mr. Chairman, our recent broad-based engagement at the Wyoming Ministerial on regional conflicts, arms control, human rights, global or transnational problems and bilateral topics such as economics is a good example of this policy in practice.

Thank you, Mr. Chairman.

[The prepared statement of Secretary Baker appears in the appendix.]

The CHAIRMAN. Thank you, Mr. Secretary.

Mr. Secretary, on that point of mutual advantage, it seems to the Senator from Texas that there are things that we can do to expand commercial trade to our mutual advantage. And we are certainly seeing the European Community pursuing that kind of an approach.

Now, you have stated your willingness to work with the Congress when we are talking about Jackson-Vanik, and the President when he took his position on it restated that. May we also assume that the administration is prepared to work with the Congress at any point if and when the President decides to begin negotiations for a bilateral trade agreement with the Soviet Union?

Secretary BAKER. Absolutely.

The CHAIRMAN. I note in the trade agreements that the Soviet Union has with the European Community that there are a vast number of products on which the EC has put quotas because they feel that that is the way they have to deal with a non-market economy. By the same token, the agreements that we have had where we are talking about wheat, and corn and the rest of it, we put floors and ceilings on what we expect them to buy in that kind of a market. Is that the kind of an economic agreement that you think we would be working out with the Soviet Union?

Secretary BAKER. You mean an agreement that had quotas incoming?

The CHAIRMAN. Yes. In effect, and that is what the EC has done, would we be looking toward a managed trade agreement?

Secretary BAKER. Well, I don't think that beginning from a purely philosophical basis, Mr. Chairman, that we would start out with the goal of looking for a managed trade agreement, if I may say so.

The CHAIRMAN. Mr. Secretary, I normally do not either. But that is what we have done on grain and that is what we see the EC doing because of the fact that they have a non-market economy that they are working with. How do you avoid it?

Secretary BAKER. Well, I can't tell you that you can avoid it because we are dealing, as I indicated in my opening statement, with many factors here that are unclear and unknown. And it may be that we will have to have those kinds of provisions in any trade

agreement with the Soviet Union. I cannot foreclose that possibility. But I don't think that that would be the thrust of our initial approach.

It seems to me that the levels on the grain agreement is a little bit different situation, There we are asking for minimum purchase levels in order to provide for a longer term commitment so that our farmers, if you will, are not disadvantaged by the fluctuations that take place in the international grain market as we proceed. That happened to us if you recall in the 1970's, Mr. Chairman, where we did not have a sufficiently long-term agreement and we did not have a minimum level of requirement that we needed.

The CHAIRMAN. Of course, we have a floor and a ceiling both in our grain agreement with the Soviets and the European Community has some 800 different articles that are under quota agreements.

Secretary BAKER. Yes, sir.

The CHAIRMAN. That is part of the problem we have in dealing with a non-market economy.

Tell me what you think we would receive. Would we have a fair trade if we gave them MFN and they gave us MFN? Does that add up to something that is mutually advantageous or not?

Secretary BAKER. Well most of it flows in the other direction now. I am not prepared to say it would not be mutually advantageous. I think that there is a lot of talk about Jackson-Vanik, and I think it is important that we address that and that we move at the appropriate time on that. But I think that granting MFN to the Soviet Union would likely have limited short-term impact on their exports to us. In the short term, I don't see that massively increasing their exports to the United States.

I would think we would want, to the extent we could get it, on the other end of that to get MFN if we could get it on the other end of that transaction. I would not want to think that we would go into it with a one-way approach.

The CHAIRMAN. Well I am sure we would not get it in a one-way approach either way.

Secretary BAKER. Uh uh. No.

The CHAIRMAN. No.

What would we hope to gain with a trade agreement with the Soviet Union?

Secretary BAKER. Well I think you put your finger on it in your opening statement, Mr. Chairman, when you talked about the importance of being prepared to expand our commercial relationship, provided the other considerations that guide our foreign and commercial relationships are met. The national security implication has to be taken into consideration. The standard that was adopted at the 1988 Economic Summit I think is an appropriate standard, that is, ordinary commercial transactions. Not subsidized trade. And I realize that we have the export enhancement program. I think that is a special situation. But the standard generally is that we do not subsidize,

But normal commercial, nonstrategic trade is what I think we would hope to gain, a relationship there that would be every bit as broad as the relationship that we anticipate the European Community will be generating with the Soviet Union.

There is the potential there, the potential of a vast market, just as there is in the People's Republic of China.

The CHAIRMAN. Thank you.

Mr. Secretary, as you know, we have the joint session to receive President Salinas, and we will be limiting the period of time that we have available. Senator Roth.

Senator ROTH. Thank you, Mr. Chairman,

First, let me say it is a real pleasure to have you here, Mr. Secretary. I am sure that there is a great challenge to you to be steward of our foreign policy at this particular stage when we see really so many of our past policies working effectively. This is probably the most promising time of this century.

The Chairman mentioned the fact that the Europeans apparently are Proceeding with trade with the Soviet Union and Eastern bloc. Is this a matter that should be of real concern to us? Should we be trying to work out some kind of trade policy with our friends and allies in Western Europe, in particular, and Asia as to how we proceed in trade?

Secretary BAKER. Senator Roth, I think we have a policy, at least in terms of a standard. I mean it is the standard that was set at the 1988 Economic Summit and that I have just articulated. As far as I know, our European partners are not violating that standard. I think we should be quite clear that we expect them to live up to that standard.

And that standard, of course, is that ordinary commercial transactions should be encouraged with the caveats with respect to strategic trade and subsidized lending or subsidized trade.

I think it is fair to say that we do not believe that our European partners are violating the standard that was adopted at the 1988 Summit.

Now we have other restrictions, as the Chairman has pointed out. Jackson-Vanik is only one. We have got Section 613 of the Trade Act. We have got the Stephenson Amendment. We have got a 1986 amendment to the Ex-Im Bank Act. This legislation was all enacted with good goals in mind, and that is to move the Soviets on human rights.

I must say to you that in the five-part agenda that we discuss with the Soviets every time we meet with them—arms control, global issues, bilateral issues, and so forth—human rights is an area where we see really quite remarkable progress, such remarkable progress that we are now faced with a problem, as you well know, of increasing numbers of refugees from the Soviet Union beyond the budget capacity of the United States to meet right now. Even though we are increasing the numbers, it is still quite a problem for us.

Senator ROTH. You stated in your testimony that the Soviet Union continues to provide aid in a number of sensitive regional areas, such as Cambodia, Cuba, Nicaragua, to name just a few. Some specialists argue that as long as the Soviet Union continues to be giving that kind of assistance it is not in our interest to be helping them economically.

How do you answer that criticism?

Secretary BAKER. Well I answer it by referring back to my statement in which I said it is the strongly held view of the administra-

tion that it is in our best interest to see perestroika succeed. We think so because we think that will result in a more stable, secure and open Soviet Union. That will be good for the Soviet Union, that will be good for the United States, and that would be good for the international community as well.

We answered further by saying that we never sit down with the Soviets without raising this issue, without probing on the issue of their so-called new thinking in foreign policy as it relates to their continued support for their client regimes and some of these regional conflicts.

I guess I would answer it as well by saying we are making some progress on arms control. I think we are beginning to make some progress on these regional conflict issues as well.

It doesn't cost the Soviets quite as much, Senator Roth, as it does the United States to distribute military equipment in these regional conflicts because they have a vast surplus of it and their whole economy has been oriented toward massive military production in the past.

Senator ROTH. One final question. My time is up, Mr. Secretary. Like you, it seems to me to succeed in this new global economy, this new age of technology, that the market economy is the only way you can become competitive. Yet, as you say, the Soviet Union has leadership. They continue to argue that they are going to improve the system, that they are going to convert military to civilian. Now they have succeeded in creating a viable military machine with their current system. So how can we be certain that they cannot achieve success continuing with a command economy?

Secretary BAKER. Well they have been trying for 70 years. And as my statement indicated briefly and as my written statement will indicate to you in greater detail, they have had a number of reform efforts in the past, all of which have failed. And each of those reform efforts have been designed to try and reform the centrally planned model and it continues to fail. And centrally planned statist economies have failed all around the world.

And as you pointed out in your first question, if there is a lesson here it seems to me that the lesson is that freedom works, political freedom and economic freedom.

Senator ROTH. Thank you, Mr. Secretary.

The CHAIRMAN. Thank you, gentlemen.

I have given you a fast clock this morning because some of us have to leave early because of this joint session. But I would ask Senator Moynihan to ask such questions.

Senator MOYNIHAN. Mr. Secretary, thank you for a thoughtful paper. It is not our normal fare hereabouts and we appreciate it.

[Laughter.]

On your five points, your six points rather, in the fourth you said, "And this linkage between economic and political relations in terms of human rights," you talked of institutionalizing human rights and the rule of law. And certainly one of the more pronounced American initiatives in the world since Woodrow Wilson has been the thought that we would have a world in which the relations of states were basically governed by the law of nations and treaties, such as the covenant and the charter, and they would on occasion be adjudicated by the World Court. And it was basically

the Soviets who rejected that proposition that there could be such a regime in 1919. And their claim, was not so much to be a competitive power, but to be the next stage in history—that has been between us for 70 years. And they seem now to have given that up. I mean Mr. Gorbachev went to the U.N. and said, "We, of course, make no claim to the possession of ultimate truth." Well that is exactly what they did claim for a long time.

And having withdrawn that, the possibility of a different relation emerges, one of law. And Mr. Gorbachev has spoken of resort to the Court. He has given a list of things where he has suggested that the United States and the Soviet Union might agree to compulsory jurisdiction.

Your legal advisor, Judge Sofaer, Coudert Lecture to the Association of the Bar of New York, spoke of an increased use of panels from the World Court between the two parties. That being the case, we would avoid the difficulties we had over the Nicaraguan harbors case when we refused to go to the Court.

Have you had any discussions with the Soviets in that area? Because that is what underlies an economic relation, the question of legal relations and commitments.

Secretary BAKER. We have, Senator Moynihan. And we have just signed an understanding which we hope eventually will lead to the United States to call upon the International Court of Justice more frequently than we have in the past. And we have had some in-depth discussions at the experts' level with the Soviet Union on this.

Senator MOYNIHAN. I thank you and I will perhaps hear more on the next round.

Secretary BAKER. All right.

The CHAIRMAN. Senator Chafee.

Senator CHAFEE. Thank you, Mr. Chairman.

I am glad to see you, Mr. Secretary. And certainly you have got one of the best jobs in the country I think. As we pick up the paper every day the dramatic events, particularly in Eastern Europe and East Germany, just leave us agog. I think, as you said, this is truly an internal revolution in the Soviet Union, but as you said, there are things we can do. I am not quite clear, however, at what point we do something about Jackson-Vanik. Apparently the President has stated that the Soviets must codify their emigration policies to meet certain standards. Now is the word "codify" crystal clear? Is there an identifiable point when they have codified their policies to meet our satisfaction or meet international standards?

Secretary BAKER. We have discussed this with the Soviets, Senator Chafee, and what we have basically said is that it is important that the Supreme Soviet act to legislate the right of emigration, legislate actually the policies that they have been pursuing over the course of the past year to 18 months.

Now we also think it is not unreasonable, in light of past Soviet practice, to require some period of implementation of that behavior or implementation of that legislation. We have never put a time frame on that. We haven't put a time frame on that in public statements nor have we really in our discussions with the Soviet Union, but we continue to encourage them to move as expeditiously as possible.

As you can judge from my opening, the Supreme Soviet has a lot on its agenda.

But I would hope, as I indicated, that they would be able to move sometime toward the end of the year or the beginning of next year. And then we ought to look at the implementation of it to make sure that is proceeding in a fair way and then be prepared to consult with you to move with respect to a waiver.

Senator CHAFEE. Well all this does is put it into the out year time frame. Probably if everything went perfectly, it would take perhaps a year or close to that.

Secretary BAKER. Well it could be less. I would think if they moved expeditiously on the legislation it could be less than that, Senator Chafee.

Senator CHAFEE. Well I would hope that we could do something to be helpful in this situation. Truly, it is up to them, as you pointed out several times in your statement, but for a whole series of reasons, not the least of which is this potential vast market. There is no question about the fact that the Europeans are going to move aggressively to seize those markets. Thank you very much.

The CHAIRMAN. Mr. Secretary, since I will have to leave in just a minute, and Senator Moynihan will be presiding, I will not get my second round of questions. I am going to ask you one before I go to the next one, and that is my concern about Panama.

This morning, General Noriega is still in charge in Panama. What role, if any, did the United States play in the attempted coup yesterday? And if we did not, should we have played a role?

Secretary BAKER. Mr. Chairman, let me answer your question this way by saying that, first of all, the events in Panama yesterday I think confirmed what the world learned in the elections that took place in Panama last May. The people of Panama—and that includes, in our view, the officers and members of the Panama defense forces—want to see General Noriega out of power so that Panama can begin a new democratic future.

As you know, our policy has been to apply steady, relentless pressure on the Noriega regime across the board, diplomatically, economically, and to defend American lives and U.S. rights under our Panama Canal Treaty. As a result of that policy, I would submit to you that the Noriega regime today is bankrupt, it is isolated, and it is shunned by the nations of this hemisphere and indeed by all nations in the democratic community.

I think that the attempt by some officers in the PDF to oust Noriega is a visible sign that that regime is cracking. As far as we are concerned, the pressure is going to continue until Noriega is gone.

The President has made it very, very clear that there can be no accommodation with him nor can there be any normalization of relations with Panama as long as Noriega remains in power.

With respect to the response to the events of yesterday, let me say that the President acted immediately to do two things: To safeguard American lives and to ensure the security of the Panama Canal, just as the United States is obligated to do under the Panama Canal treaties.

We all know that the events of yesterday were breaking rapidly and that there was a combat situation on the ground for a period of time.

I should say that—and I am not suggesting that you are in any way doing this, Mr. Chairman, and I want to make that clear—it is easy after the fact in one of these situations to second guess the events by arguing that the United States should have done something differently.

As Senator Lugar said this morning on one of the television programs, it is easy to be an armchair general——

The CHAIRMAN. You are quite right, Mr. Secretary, I did not intend that.

Secretary BAKER. And you are not one. And I know that and I want to say that.

It is easy to be an armchair general when you don't have any real troops under your command and you don't have any responsibility to safeguard the lives of those troops.

Having said that, the United States retains the option to use American forces. That option has never been ruled out. But if you are going to risk American lives, Mr. Chairman, it is the President's view that you do so on your own timetable, you do so based on your own plans at a time of maximum opportunity and advantage. And you don't do so on the basis of someone else's plans and in response to rapidly changing circumstances such as existed yesterday.

Finally, Mr. Chairman, I would simply repeat that this is an outlaw regime down there in Panama. It is isolated and it is condemned around the world, The crisis down there is only going to grow worse until the people of Panama have a right to enjoy the fruits of democracy.

The CHAIRMAN. Thank you very much, Mr. Secretary.

Senator Heinz.

Senator HEINZ. Mr. Chairman, thank you.

Secretary Baker, I want to ask you a little bit about where the Eastern bloc countries come into our relationship with the Soviet Union. And, of course, there has been a lot of attention—properly focused—on our relationships with Poland and Hungary and the President's very visible trip to those two countries, emphasizes I think, the administration's interest in them.

Would you agree or disagree with the general statement that one was to undermine Marxist-Leninist ideology and put increasing pressure on the Soviet Union to do what we think it wants to do—namely, to get rid of central planning, become a more market based open economy with the more open access to information that that implies—is to assist prudently Poland and Hungary in their economic development to show the Soviet Union that our ideas are not theory that only apply to the West but can apply within the Eastern bloc as well?

Secretary BAKER. Absolutely, Senator Heinz. I think it represents a historic opportunity. It is our intention to do everything we can to help them succeed. There are some things that we think could be counterproductive and we think this has to be approached in the right way.

May I back up though and simply say also that we discussed this question of developments in Eastern Europe with the Soviet Union. And it is my view that the Soviet Union's position on the reform that is taking place in Eastern Europe is that each country of East-

ern Europe should be entitled to choose the form of government which it desires.

We have pointed out to the Soviet Union the negative consequences that we think would flow from any use of force to maintain a certain type of regime in power or certain type of government. And we have been told by the Soviet Union that that has basically been ruled out.

I happen to believe, and I do not believe I am naive in this, that they mean it when they say "We would be willing to see the governments in Eastern Europe have"—"the people in Eastern Europe have whatever type of governments they wish." And I think that is demonstrated by what has happened in Poland. I think it is to some extent demonstrated by what has happened recently with respect to the exodus of refugees from the German Democratic Republic through Czechoslovakia and Hungary with the Soviet Union's acquiescence.

I think the limits, Senator Heinz, are withdrawal from the Warsaw Pact and perhaps withdrawal from CEMA. But it is important that we do everything in our power to assure that the reform efforts in Poland and Hungary succeed. It is an historic opportunity. It is the most, I think, dramatic development in terms of the East-West relationship that we have seen in 40 to 45 years.

Now we can debate what is the right program, how much ought to be committed, how should it be spent? And I know there is a debate on that, and we acknowledge that and we are quite prepared to debate the merits of it.

The President will have an announcement later today with respect to additional steps which he thinks we need to take, but we need to do it on the basis of several principles I think. One, we should not make the same mistakes we made in the 1970's when we just threw money at the problem and did not solve it.

We should work carefully and closely with our allies, as we are trying to do, Senator Heinz. And I had any number of meetings during the course of my week at the U.N. specifically on this subject. And we should do it in a way that encourages the development of a private sector. And without going into detail here on all of the initiatives that the President has proposed, this, of course, will be the third statement he has made on the subject, and the third time he has proposed some specific measures. That is quite appropriate when you consider that the first time he proposed something we were dealing with a Communist government seeking to reform, and now, of course, we are dealing with a democratic government seeking to survive, So we should step up our response.

Senator HEINZ. May I just say, Mr. Chairman, that the Secretary has answered not only my question but a whole variety of very pertinent questions that I did not ask but he answered them extremely well. And I hope there is time for a second round because I have a specific followup.

Senator MOYNIHAN. Thank you, Senator Heinz.

Senator Danforth.

Senator DANFORTH. Mr. Secretary, we were here until about 2:30 last night dealing with budget reconciliation. Obviously, the question of our own budget is very much on our minds in Congress and very much on the minds of the administration.

I take it that a part of the Soviet Union's problem is the cost of its own military preparedness. And my question to you is whether this isn't the time for some pretty bold moves with respect to the cost of military on both sides, particularly with respect to Europe.

I am a great defender of NATO. I realize that anything we do has to be done in concert with our allies. It has to be balanced. There are troop reduction talks that are now underway. But wouldn't it be to the mutual benefit of both countries to think in big terms now, almost afresh, about the degree of real threat that exists now in Europe and what both sides could do to substantially reduce the cost of military?

Secretary BAKER. Senator Danforth, I touched on that in my oral statement, and I developed it a good bit more in detail in my written statement. But the answer to your question is yes. But the further answer I think is that is what we have been doing. That is what the President's initiative on conventional forces reductions call for. That is very bold. It was and still is dramatic. It would result, as I indicated in my statement, in significant savings to the United States and to the Soviet Union if we can negotiate an agreement on those terms.

Furthermore, we made progress at our recent Wyoming Ministerial meeting across the full range of our arms control agenda. We made progress in the area of nuclear testing, and strategic arms and chemical weapons and so forth.

So I think your thesis is sound. I would agree with it. I would argue that we have already been bold in this area through the conventional forces initiative that the President announced at the May NATO summit.

Senator DANFORTH. Well hasn't the President proposed to reduce our troops by, what, 25,000, something like that?

Secretary BAKER. 30,000 is what this would result in, Senator Danforth.

Senator DANFORTH. And there are how many troops there now?

Secretary BAKER. There are about 305,000 U.S. troops there.

Senator DANFORTH. So a 10-percent reduction is what you would hope for?

Secretary BAKER. Well, yes, sir. But don't forget that this initiative calls not just for a 10-percent manpower reduction, it also calls for significant reductions in tanks, artillery, armored personnel carriers and aircraft.

Senator DANFORTH. Do you think a Soviet invasion of Europe is a real possibility?

Secretary BAKER. I think that we have kept the peace for over 40 years, Senator Danforth, by remaining prepared. And I think we should continue to remain prepared, but we should seek these mutually advantageous opportunities to move, as I indicated in my opening statement.

Senator DANFORTH. Well nobody doubts that we should remain prepared, but preparedness it seems to me is also something that is seen in relation to the degree of threat.

Secretary BAKER. I do not think that you can—there is still a significant imbalance in forces. There is still a significant imbalance in tactical nuclear weaponry. And I don't think that we should simply, say that there is absolutely no threat just because the

Soviet Union is going through this quite revolutionary approach to reforming its political and economic basis.

Senator MOYNIHAN. Mr. Secretary, I believe what Senator Danforth was saying is that there is also a significant imbalance in the finances of the American national government and that it preoccupies the point of mobilizing the Congress these days, as you recall from your time on the domestic side.

Senator Roth?

Senator ROTH. Mr. Secretary, isn't it possible that the situation in the Soviet Union could reverse, that somewhere along the line the more conservative elements, whether it is the military, KGB, or just conservative members of the politburo, might reverse the trend much like China so that we cannot assume that the happy circumstances today will necessarily continue? Doesn't NATO continue to have a very important role?

Secretary BAKER. Senator Roth, there have been reverses in the past, as you quite properly point out and as I allude to in my statement. And that is why I said that the jury is still out with respect to the success of Chairman Gorbachev or perestroika. So we should continue to remain prepared. And I think we are. Continue to approach this relationship in a prudent manner. That is what the President said in the early months of the administration when we were catching a lot of flack for that.

But I think it is still an appropriate basis on which to proceed. Yes, we want them to succeed. And I have outlined a number of things here that we can do, and we are in fact doing many of those things, as you see from what happened in Wyoming and other events. But we should continue to be prudent. And, above all, as I indicated in my statement, we must be guided by what is in the national interest of the United States of America.

Senator ROTH. Let me go back to trade for just a moment.

Given the extreme shortage of hard currency in the Soviet Union, is barter trade becoming more workable? Should there be joint extraction projects, for example, in the area of minerals, oils, timber? Does that offer any possibility?

Secretary BAKER. The Soviet Union has massive natural resources. It may well offer some possibilities in advance of the time that they can move to some type of convertibility or partial convertibility or to the time that they can take the steps to establish a price system, as I indicated here.

I am really not in a position to quantify that for you. But they do have massive natural resources.

They, as I indicated in my remarks, are involuntarily moving in some areas in the consumer area to a barter economy. People are acquiring goods now and holding those goods rather than rubles because there is such an excess of rubles chasing a scarcity of goods.

Senator ROTH. My time is up. Thank you, Mr. Chairman.

Senator MOYNIHAN. I thank you, Senator Roth.

May I note that the Secretary has said that he could stay until 11:15. Is that right, sir?

Secretary BAKER. Yes. 11:15. Outside 11:30, Senator Moynihan,

Senator MOYNIHAN. Well, no. We will respect the day you have had and the day you are going to have.

Senator Baucus.

Senator BAUCUS. Thank you, Mr. Chairman.

Mr. Secretary, I listened with interest to your responses to questions of other members of the panel concerning Jackson-Vanik and the waiver of Jackson-Vanik. I am just urging the administration to proceed a little more quickly in moving toward a waiver of Jackson-Vanik. And I say so because, as you know, one of the authors of Jackson-Vanik, the former Congressman Charles Vanik, is very much in favor of the waiver.

Secretary BAKER. Yes.

Senator BAUCUS. And, second, Senator Jackson stated in a letter to the President immediately after Jackson-Vanik was passed, and I quote, "We would consider a benchmark a minimum standard for initial compliance to be the issuance of visas at the rate of 60,000 per annum." And you know as well as I that the rate of Jewish emigration from the Soviet Union, from the figures I have are that 6,900 Jewish emigrants left the Soviet Union in August—and that was a new record—and in addition, if that is sustained, the rate will be over 83,000 for this year.

In the view of the wishes of one member, Congressman Vanik, and in view of the statement of Senator Jackson, and in view of the numbers, and because we are the only—only industrialized country that does not grant the Soviet Union MFN, I am just curious why we do not get on with it and just grant it.

When I heard your response, it reminded me a little bit of the debate with respect to trade with other countries, namely, process versus results. And if we are so concerned about the Supreme Soviet codifying, it seems to me we are getting hung up on process and we are not looking at results. And if the results speak for themselves, that is, if emigration continues at the rate that it has been, why doesn't it make sense just to waive Jackson-Vanik for 1 year and try it, and just look at the results and look at the emigration policy?

Secretary BAKER. Senator Baucus, there have been stops and starts in this process in the past as far as the Soviet Union is concerned. In 1979, there were 61,848 people permitted to emigrate. In 1984, all of 1984, there were only 1,897. So we don't think it is unreasonable to suggest that they ought to at least institutionalize what they have been doing in the last 2 years—or really the last year—in 1987 there were 25,891 were permitted to leave. It is true that in 1988 it looks like 79,845 left. But we think it is fair to suggest that at the very least they ought to institutionalize this practice.

Senator BAUCUS. Well what does institutionalization mean? From your answer, it sounds like it means a 5-, 6-, 7-year period. Do we have to wait 5, 6, 7 years?

Secretary BAKER. No, no, no, no. My answer to Senator Chafee was it would seem to me that it could be done inside of a year and he said this means we will end up waiting a year. And I said not if they will move expeditiously over there. I think it could be conceivably done inside of a year. I don't want to predict that as a probability, but I certainly think it is a possibility.

Senator BAUCUS. My second point is that, as you know, the Soviet Union is somewhat reluctant in buying as much grain as we, Americans, would like to sell under the long-term grain agree-

ment. It seems to me we have an opportunity here, that is, why not link MFN to the long-term grain agreement? That is an encouragement to get the Soviets to buy more American grain. We can enter into negotiations with them in waiving Jackson-Vanik to give them MFN. Why not link the two?

Secretary BAKER. I thought you wanted to move quicker and not put other obstacles in the way of moving.

Senator BAUCUS. I agree we should move more quickly, but also this may be an opportunity to gain an additional advantage.

Secretary BAKER. I indicated in an answer to an earlier question that I don't think giving the Soviets MFN is going to result in a large amount of additional exports from the Soviet Union coming in here, certainly not in the short to medium term. I think they would see that as tooling them around, if I may say so, Senator Baucus, when we have said, look, you institutionalized this practice that you are pursuing now, and implement it for a period of time and we will move on Jackson-Vanik.

If we now start coming up with additional requirements that would create problems, I mean, I can understand why you would be interested in grain, and there are other people on the panel who would—there are probably some on the panel that might be interested in selling them something else—yet I really think that would move us in the wrong direction.

Senator BAUCUS. Well it depends on the opportunities. I mean there might be some greater opportunities in one area, say grain in some others. I am not saying we should wait only because of that.

Secretary BAKER. If we can improve the commercial, ordinary normal nonstrategic commercial relationship with the Soviet Union, I would think that could lead to the potential at least for increased grain sales.

Senator BAUCUS. Thank you.

Senator MOYNIHAN. Thank you, Mr. Secretary.

Thank you, sir.

Mr. Secretary, could I be bold enough to speak for what I think is a quiet view of the large number of Senators in this matter, and that is simply a sustainable proposition that the Soviet Union showed good faith in response to the Jackson-Vanik legislation, and doubled and re-doubled the migration involved? It reached 51,000 under President Carter and nothing happened. And it is certainly a sustainable proposition that they said, well, if that is not a good faith proposition we will show you that it can go from 51,000 to 890 and it did. And now it is going back up again. And I think the responsible organizations are saying good faith has been shown. Let it be rewarded. And I hope that within the Department you do not have to give in as we all frequently do give in to the most intransigent of the groups you are dealing with.

Secretary BAKER. No, I don't think that is going to happen, Senator Moynihan. We are now playing the lowest common denominator policy here. That is not what this is.

It really is our desire to move, but also having said in May of last year that we are prepared to move when they institutionalize this practice, we think it would be a mistake to now change our standard, come off of that. I think they are at the point of considering it in the Supreme Soviet.

Senator MOYNIHAN. They have said 2 years ago that they were moving in this direction.

Secretary BAKER. Yes.

Senator MOYNIHAN. You heard what——

Secretary BAKER. Oh, they said they are going to move to a freer emigration policy, but now they have said, well, that they are going to lift it, that they are going to institutionalize it. And I think we should have that and then move.

Senator MOYNIHAN. Well you heard me say that the pressure, if any, from the Senate will be towards responding as against holding back.

Secretary BAKER. You don't think there is sufficient pressure that you would address it legislatively?

Senator MOYNIHAN. No. We want to work with you. We would like to hear what will help you most.

Senator Symms?

Senator SYMMS. Thank you very much, Mr. Chairman. And welcome, Mr. Secretary.

Mr. Secretary, there is much in your statement that I have looked through that is very commendable and I compliment you for that statement.

On page 2—I guess before I start asking questions I want to ask you these questions in context with the most important question, and that is that with all this enthusiasm that is present in the country for Western enthusiasm to lend to the Soviets and so forth. Would you agree with me that unless they make some major institutional changes that we could be setting ourselves up toward a new debt bomb because unless they make some changes, which you alluded to or speak directly to in your statement, that they may not have the wherewithal to produce anything that anyone wants to buy other than natural resources?

So I guess with that question, that as a context of the question, how is the—what is the likelihood, in your opinion, of any real private property and a free market pricing system being instituted in the Soviet economy? And how long do you perceive it would take?

Secretary BAKER. Senator Symms, as I indicated in my statement and again as is developed more at length in the written statement, it is a difficult problem. It is tough to move from a centrally planned, 70 years of a centrally planned economy to a free market system. And, of course, as I point out, they are talking about reforming the socialist model or a status model, not moving. And they have got some ideological problems in just embracing the concept, the total concept of a free market system.

So it is a big job. They have got a lot of things they have to do before they are even in a position to address the question of a price system as I point out in there. So it is a very big job.

May I say something on the lending? Contrary to popular belief, there has been no surge in Western lending to the Soviet Union. What seemed like it between 1984 and 1987 was really an exchange rate phenomena. The appreciation of non-dollar currencies against the dollar made the stock of Soviet debt go up as expressed in dollars. There is practically no United States lending to the Soviet Union. And, of course, as I mentioned in my testimony earlier,

there is still some legislative restrictions on anything having to do with——

Senator SYMMS. Mr. Secretary, my time is about up. I want to ask you two quick questions before I run out of time.

Secretary BAKER. Sure.

Senator SYMMS. One is, how long do you perceive it will be before they can make the ruble convertible so they really can become a trading partner with other people in the world? And, number two, are we getting any help from the Soviets with relationship to the East German refugees that are entrapped in the Soviet Union?

Secretary BAKER. The answer to your second question is yes, we are. The exodus from Prague would not have taken place had the Soviet Union not, in effect, blessed it, in my opinion.

The first question is one I cannot answer by putting a definite date on it, Senator Symms. Getting to partial convertibility is not as difficult as getting a price system and then moving to full convertibility. There is a way that they could, I think, get to partial convertibility by utilizing their gold stocks, as I mentioned in my oral testimony, and thereby create a currency that they could use in foreign trade transactions. And other countries that do not have a truly totally convertible currency have done this. So that could be done in a much shorter time frame than getting to full convertibility, but I cannot tell you how long that would be.

Senator SYMMS. Thank you, Mr. Chairman.

Senator MOYNIHAN. Thank you, Senator.

Senator Heinz? We are going to be respectful of the Secretary's time.

Senator HEINZ. Yes, Mr. Chairman, absolutely.

Mr. Secretary, I noted in this morning's Washington Post, an article entitled "Democrats propose triple aid to Poland and Hungary," and it proposes, I suppose, an increase of some $600,000,000 over and above the $225,000,000 that the administration has requested. There may well be some positive elements to that proposal. But it strikes me that that may well get the cart before the horse and may very well violate the principle of not throwing dollars at a problem. We have learned that that does not work on occasion after occasion, and in particular that it would do little to develop the private sector in either of those countries.

I suspect we both understand that the real key to economic development in Poland and Hungary is private investment under the right circumstances. And in June, you may recall, I wrote you a rather lengthy letter proposing a three-point plan that would lead to significantly increased Western and particularly American investment in Hungary and Poland; namely, a plan which would have as its end result the ability to sell, presumably for the most part for use by Western investors, a higher level of technology than now can be transferred to the Eastern bloc.

In brief summation, those suggestions were to negotiate a differential for Poland and/or Hungary, not unlike the PRC green line which took us 3½ years to negotiate; to couple that with a government to government Customs' agreement to make sure that we could investigate and correct breaches of Custom laws; and, thirdly, and even more critically, a strategic trade agreement to allow for verification and checks to ensure that American technologies that

were exported pursuant to such an agreement were neither diverted nor illegally obtained or that inappropriate access was granted.

By the way, I gather we have about 13 such agreements in various forms of negotiation and completion now.

My question to you is this. Is the administration committed to negotiating toward such a set of agreements with Poland and Hungary? And if so, recognizing that the road to a successful negotiation requires compromises by the other side, what are the key elements we are looking for in such a negotiation so that the President and you, as his Secretary of State, would feel comfortable granting such an end result as I have just described?

Secretary BAKER. Senator Heinz, as I understand your proposal, there are some elements of it that the administration thinks are very positive and should be explored. There is a feeling that we should not move too quickly on the question of the export of strategic technology to these countries of Eastern Europe that are in the process of reform because of the difficulties of assuring that that technology will not find its way out of those countries.

You heard me say earlier that I think the Soviet bottom line as far as reform in Eastern Europe is concerned is maintenance of their status in the Warsaw Pact and perhaps in SEMA. Therefore, I realize your proposal calls for the negotiation of agreement to protect that technology, but we have some reservations about how effective such an agreement might be too early in the reform process. I mean there is something that I think is very well worthwhile looking at and the administration is doing that and will continue to do that. The major reservation, in my view, would be moving too quickly to create a separate classification within COCOM.

Senator HEINZ. A brief point of clarification. I don't want to put words into your mouth, but what I hear you saying is that you have discussed this matter with Hungary, for example, and at this point they are not in a position to make a sufficient warranty to——

Secretary BAKER. No. I don't want to lead you to that conclusion. The matter has been discussed with Hungary. I am sure they would give us such assurances orally as we might seek and perhaps in writing. We simply have some reservations about how we could protect that technology within the context of the fact that those countries will be remaining in the Warsaw Pact.

We need to do some more internal homework on it, but I am just trying to give you the general thrust of our reservation.

Senator HEINZ. Mr. Chairman, I would only observe that we signed an INF accord—intermediate range nuclear weapons accord—with the Soviet Union that had a number of very intrusive verification safeguards. We are anticipating progress in reducing conventional forces in Europe and perhaps a strategic arms agreement, all of which require reaching not into Hungary and Poland but into what President Reagan used to refer to as the evil empire, the Soviet Union itself. And it seems to me, Mr. Secretary, with all due respect, that if we can have those kinds of agreements on the worst kinds of strategic arms that it is not infeasible to develop a regime with Poland and Hungary that will protect lower level, by far, dual use technology.

Secretary BAKER. But, Senator Heinz, in those agreements, those arms control agreements, it is simply a question of verifying Soviet compliance with the treaty. We are not giving them access to Western strategic technology. And it is not the same thing.

Senator HEINZ. Mr. Secretary, to be fair to anybody else, we will have to carry on this discussion on another occasion.

Secretary BAKER. I would be glad to do that.

Senator MOYNIHAN. Thank you, Senator Heinz.

You know, I hope we might do when you have a little more time. There is sort of an almost primitive idea that goes around that we have secrets that are called technology. Technology is not a secret; it is a culture. You either have got that or you don't. And if you do you will have that technology.

Sir, we have come to the end of the time that you have available.

Senator Dole and Senator Packwood—don't pack up. Your entourage is in a hurry—very much wish that they could be here. They are necessarily at a joint meeting with the President of Mexico. They have questions that they would like to submit to you. Senator Dole has his right here, as does Senator Bradley and as do I.

[The questions appear in the appendix.]

Senator MOYNIHAN. Could I just note that my two questions are, could we get a little more specific response to Mr. Gorbachev's proposal at the United Nations in December of 1988 which called for making a binding agreement on human rights from the World Court? The World Court should have that jurisdiction. And we would like to hear what this Department thinks.

Number two, there has been a very important proposition—you referred to it earlier and directly—that for the longest time the United States has grossly overestimated the economic product of the Soviet Union. I see you are nodding in recognition. And in retrospect, did we frighten ourselves? Or I would like your judgment. Obviously there is no answer to that question.

Secretary BAKER. I don't think it was a case of that. The Soviet Union, frankly, never kept statistics. It was just a wild guess on their part of what their gross national product was. And with what has happened over the course of the past couple of years, if you look at it in terms of the real value of the ruble, it shrinks even more.

Senator MOYNIHAN. Yes.

Secretary BAKER. And when I was Secretary of the Treasury we felt that the Soviet Union was the world's third largest economy, and now I must say to you that I think there is serious doubt.

Senator MOYNIHAN. Do you want to put a number on that?

Secretary BAKER. No, I really had better not to that. A lot depends on what we are getting out of there is accurate information. They are trying to develop their own statistics. And then a lot depends on whether or not the exchange rate that I would use, which is what you can get for a ruble at the front door of a Moscow hotel, is really a fair exchange rate. So I would really not want to put a number on that.

But I agree with you, Senator, I think it is considerably less than what we had anticipated for a long time. But that should not in any way be used, in my view, to downplay the extent of the threat that they represent as a military power. That is substantial, has

been in the past and continues to be. They continue to have a substantial military apparatus.

Senator MOYNIHAN. It is a measure of many important things and you would agree on that.

Secretary BAKER. Yes, sir.

Senator MOYNIHAN. Now one last thing, actually the final thing, just to repeat what the Chairman said in the opening, that any trade agreement negotiated by the administration with the Soviet Union will be reviewable in this committee, and any changes in Section 406 will have to be considered by this committee. This is by way of invitation, Mr. Secretary. We hope you will come back as you can and cannot be frequently. We understand. But as we touch over these matters, we would be very much as concerned with our responsibilities as you will be with yours. And we thank you for essentially an interesting morning, and we wish you a good portion with the announcement you are going to have made by the President this afternoon.

Secretary BAKER. Thank you, Senator Moynihan. Thank you, Senators.

Senator MOYNIHAN. Thank you, Senators, and thank you, Mr. Secretary.

[Whereupon, at 11:19 a.m., the hearing was concluded.]

APPENDIX

ALPHABETICAL LISTING AND MATERIAL SUBMITTED

PREPARED STATEMENT OF JAMES A. BAKER, III

I. INTRODUCTION

Since 1985, the Soviet Union has pursued an extraordinary effort at internal reform—an effort now known to the world through the words "perestroika" and "glasnost." Perestroika and glasnost are an inextricable mix of political, economic, and legal measures. As President Gorbachev has stated, overhauling the Soviet economy requires a transformation of the political and legal landscape—a true "revolution."

The need to establish the political and legal setting for reform explains Gorbachev's early emphasis on glasnost—freedom for people to speak openly about the shortcomings of the Soviet economy and society, so as to build support for change. The need for political and legal change has become with time an even more prominent feature of Gorbachev's reforms.

The changes Gorbachev has made in the political and legal structure have sought:

—a Politburo and Central Committee that would agree to radical reform;

—a Supreme Soviet that would enact laws and decrees;

—a bureaucracy that would implement, not obstruct, reform; and

—a general public that would embrace and sustain necessary changes.

Gorbachev and his allies have had to define and legitimize a new Soviet market system—frequently described as a "socialist market." This effort requires much more than a technically sound program. It necessitates an overhaul of the thinking and attitudes of millions of people. It requires changing a political culture with deep Russian, as well as Soviet roots. Indeed, it involves a reconsideration of Soviet doctrine in several sensitive areas. Other members of the leadership are bound to resist this assault on Marxist ideology.

For instance, perestroika requires a renegotiation of the Soviet "social contract" The Soviet people had received extraordinary security and distributive equality (except for the privileged and the corrupt, a growing group), but at the price of political dictatorship, the absence of civil liberties, few economic incentives, and limited economic opportunity. One dilemma of the traditional Soviet economy was summed up in the cynical phrase of Soviet workers: "They pretend to pay us, and we pretend to work."

Perestroika also forces new thinking about the tradeoff between efficiency and equality. This tradeoff, in turn, raises the question of the roles of property and incentives. In the absence of terror or an overriding social task (e.g., a war), economic incentive is the prime motivation for productivity, and private property is the key to economic incentive. The Soviets also need to rethink the role of the Communist Party and the State in running the economy. The information explosion of the last twenty years has demonstrated that a centrally planned economy cannot keep up.

It is sometimes hard for people used to living in a market economy to understand the width of the gulf separating Soviet thinking on economic questions from our own. For instance, in the Soviet command economy, output and allocation are set through *quantity* targets according to a central plan, not by *market prices.* Instead of signaling scarcity, prices are used as an accounting tool. Rubles are not freely convertible into goods within the Soviet Union, much less outside. For example, a factory may have plenty of rubles, but still be unable to buy raw materials because the plan directs the materials elsewhere. Or the factory may be allocated certain ruble credit, but only for specified purchases. A high level functionary may have

access to a store with stocked shelves, whereas a citizen holding an equal number of rubles cannot find goods to buy. Money and markets do not command resources central allocation decisions do.

In summary, it would be a mistake to analyze perestroika as simply an economic phenomenon. The course set by President Gorbachev involves changes in political structure, ideology, legal practices, and popular attitudes, as well as the economy. Much of it is experimental, designed to cope with problems of the moment. Frankly, it is a staggering task.

II. LESSONS FROM SOVIET ECONOMIC REFORM FAILURES

Perestroika is not the first effort to reform the Stalinist model of a command and control economy. In the 1950s, Khrushchev implemented the "new lands" policy in an effort to spark agricultural production. In the 1960s, Kosygin introduced the Lieberman reforms, a forerunner of current efforts to increase enterprise autonomy. In the 1970s, Brezhnev sought increased management efficiency by increasing cross-sector coordination, i.e., increased centralization and bureaucratization. All these efforts represented tinkering with the basic Stalinist model. All failed.

The causes of these failures give us a better idea of what conditions may be necessary for perestroika to succeed. I believe these conditions include: [1]

1. top level political support;
2. clear recognition of the need for economic changes;
3. an openness that permits the rethinking of ideology and economic theory so as to justify change;
4. a conducive international environment;
5. consistency in the design and implementation of reforms; and
6. ability to counter the power of the anti-reform bureaucracy.

Even these conditions may not totally suffice. For the reformers are taking on Russian as well as Soviet traditions. This society did not experience many important Western movements—neither the Reformation nor the Renaissance touched this borderland of Europe. It is rent by divisions among many nationalities. These splits are exacerbated by a growing movement of strikes. Openness may bring conflict as well as progress.

The first four conditions for a successful reform effort are probably present. But the fifth and sixth pose real challenges for President Gorbachev. At this point, the real dangers to perestroika are:

—a poorly designed and non-comprehensive program, reflecting compromises among top leaders or the lack of top-level appreciation of the need for changes;
—poor implementation due to bureaucratic opposition;
—public opposition due to the loss of benefits from the old system before the advantages of the new system kick in; and
—failure to win a constituency for the reform due to uncertainty about its staying power and legal protections.

Given the magnitude of the challenge, it should not be surprising that perestroika has turned out not to be one reform program, but an amalgam of many. It is an ongoing experiment, relying on a fair amount of "seat of the pants" logic. It has reflected compromises made necessary by the Soviet system of collective leadership. It has incorporated contradictions because different factions pressed alternative solutions. These compromises and contradictions have created ambiguities, which in turn have opened opportunities for bureaucratic "reinterpretations" and obstructions. This lack of an internally consistent, comprehensive, and integrated reform program—while understandable—remains a major, ongoing weakness.

III. THE ROOTS OF PERESTROIKA

The roots of perestroika predate Gorbachev. The Stalinist system produced a swift industrialization of the Soviet economy, albeit at great cost. By the early 1980s, the Soviet leadership understood that some kind of economic reform was necessary. Yuri Andropov, in his brief tenure as General Secretary of the Communist Party, outlined some measures that became the precursors to Gorbachev's program. But it is reasonable to ask why the Soviet leadership took on this major challenge at this point in time.

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[1] These conditions are drawn from Anders Aslund's recent book, *Gorbachev's Struggle for Economic Reform (1989).*

I believe a combination of four factors convinced the Soviet leadership of the need for reform.

The *first* was the *overall decline in economic performance.* Soviet growth rates declined precipitously from 5% in the late 1960s to 1.8% in the early 1980s. (Some suggest growth was even lower, or stagnant.) The era of great gains from deploying more resources was over. The economy seemed incapable of taking the next step of using available resources more efficiently. Moreover, the technological backwardness of the Soviet economy became increasingly obvious, as did the poor quality of Soviet goods. In a phrase, the period of *extensive* Soviet economic growth—growth based on expanding inputs had come to an end. And the Soviet economy was unable to switch to an *intensive* growth policy, based on productivity gains. In part, this was because the Soviets were increasingly unable to develop and deploy technology effectively.

A *second* factor promoting reform was the *decline in the competitive position* of the Soviet economy. The gap between the USSR and the West was growing, not narrowing. Even more shocking, the Soviets could see the newly industrializing economies (NIEs) surging forward. China, too, was instituting reforms that would leave the Soviet Union behind if it did not change.

The Soviet Union's relative decline was starkly apparent from its international trading position. The relative importance of Soviet manufacturing exports to Eastern Europe was falling, leading to increased reliance on exports of raw materials (like an LDC). And by the mid-1980s, the fall in the price of oil, a major Soviet export, was cutting into hard currency earnings. Moreover, the Soviets failed to develop the increasingly important service sector (in contrast to a number of developing nations). In summary, a very proud people faced the prospect of being overtaken economically by China, South Korea, and others in the Third World.

The *military implications* of Soviet economic failure were a *third* reason for reform. The Reagan Administration's military buildup proved difficult to counter without drawing off an even greater share of civilian resources and increasing the already heavy defense burden. The estimates of the Soviet military's share of GNP vary, from 16%-18%, or even higher. (This compares with about 6% in the U.S.) Soviet military spending was growing so large that the Party leadership began to question the economy's ability to sustain that level of military force. As former Soviet Chief of Staff Ogarkov stated, technological backwardness would eventually lower military capability as the Soviet economy would not cope with the new "revolution in military affairs" occurring in the West.

The *fourth* factor was the *emergence of new leadership* in the Soviet Union. This leadership represented a new generation. They had grown up after the traumas of collectivization and the rapid industrialization in the 1930s. Some of these leaders were less rooted in the old system, less dogmatic, and readier to experiment with new answers. Not having a stake in the construction of the Stalinist system, Gorbachev's generation has been more willing to restructure that system.

Moreover, the new leadership knew from early reform efforts that the Soviet economic engine required more than a tune up. Nor would the Brezhnev strategy of trying to jump start the economy through external credits and technology prove successful. In Gorbachev's words, the Brezhnev period was an "Era of Stagnation" based on the faulty premise that outside help could substitute for fundamental change at home. But the new leadership was far from agreed on what new reforms were necessary.

IV. FIRST EFFORTS: "THIS TIME WE'LL DO IT BETTER"—OR PERESTROIKA AS RECONSTRUCTION

Gorbachev's initial reform program followed the lead of his patron, Andropov. He emphasized "uskoreniye"—"acceleration." The aim was to accelerate growth through more intensive use of inputs, rather than just massing additional resources. The elements of this program included:

—higher growth targets (still centrally planned);
—a traditional focus on increased investment in equipment, modernization and machine tools;
—improving quality by creating a new quality-control bureaucracy (Gospriyemka);
—the anti-alcohol campaign, to raise worker productivity;
—a worker discipline effort; and

—new decrees on wages and social benefits to cope with wage leveling and the lost link between performance and income, to increase pensions, and to improve health and schools.

The result was further economic deterioration. Growth continued to stagnate. Planning based on higher but unmet targets exacerbated imbalances. The extra investment did not improve efficiency because there were no market signals—such as prices and profits—to guide the allocation of capital. The bureaucratic system rejected quality control because it hurt the ability to meet plan targets, which in turn would reduce bonuses. Quality control was also inconsistent with higher production targets.

The anti-alcohol campaign had short-term positive efforts, but before long it pushed alcohol production outside the legal system. This led to a major loss of state income from the tax on alcohol, increasing the budget deficit. Criminality increased. The wage and benefit rules also turned out to be ambiguous and contradictory. Enterprises still focused on quantity rather than quality or the efficiency of production.

There was, however, one major gain. The Soviet leadership recognized more drastic action was necessary. They did not agree on the exact action, but they knew they could not sit still.

V. NEXT ROUND: BROADER BASED, BUT STILL PIECEMEAL REFORMS—OR PERESTROIKA AS RESTRUCTURING

By 1987, Gorbachev was ready to move beyond the Andropovian approach to reform. Some attribute this to the failure of the earlier changes; others to Gorbachev's growing political power. The answer may well be a mixture of the two. Whatever the explanation, Gorbachev introduced major reform measures specifically the Basic Provisions for Fundamental Perestroika of Economic Management and the Law on State Enterprises—at the June 1987 Central Committee Plenum. These measures addressed a number of sectors and issues of economic organization. While broad-based, these changes were neither comprehensive nor integrated with one another. Indeed, the nature of collective leadership and adaptations to ideology produced compromises, which at times led to contradictory results.

For example, the reforms were to produce a greater reliance on *enterprise independence*, as opposed to planning. Yet planners did not really let go. The absence of competition and market prices subverted the expected benefits of decentralized authority. It led to higher wages, but not improved efficiency and quality.

The effort to make *enterprises self-financing* could be seen as a first step toward a business system disciplined by profitability. Firms were supposed to earn their own resources, and subsidies were to be curtailed or ended. Yet self-financing could not work effectively without prices that reflected market supply and demand. As long as prices' of inputs and-outputs were determined administratively, the profits (or losses) of the firms were hardly dependent on their efficiency and competitiveness. Moreover, credit and other inputs were still controlled by planners, so firms could not compete freely. Instead of going bankrupt, unprofitable firms were still subsidized, which contributed to the growing budget deficit.

Cooperatives were supposed to give a quick boost to sales and production by permitting groups of workers to enjoy the fruits of their labors. This extra production could demonstrate to consumers that perestroika had a payoff. They could also be an evolving form of private ownership, which would provide rewards to people for their work and ingenuity. Yet the compromises of the cooperative program produced a legal and business environment that one might have designed with a purpose to kill the cooperative movement.

First, planners still channeled most inputs to state firms, forcing coops to operate through illegal, higher-priced "black" markets. This hurt the public legitimacy of coops. Second, in the absence of real competition, many coops earned monopoly profits, further eroding public support. Since many coops operated as trading intermediaries, they also faced the wrath that producers and consumers usually reserved for "middlemen." Third, the government's reaction was to grant local authorities wide latitude in taxing coops, which in some parts of the Soviet Union is likely to lead to harsh taxes. In addition, the government forbade coops' from operating in certain sectors (e.g., medicine, printing) that had proven popular and profitable. Fourth, the very tenuousness of the coops' existence has led many to distribute profits instead of reinvesting them.

Despite all these handicaps, the cooperative sector has grown and prospered. Deputy Prime Minister Abalkin recently estimated that coops now account for about 3 percent of national income and employ about 2.9 million people. But the

future of coops remains uncertain. They were a prime target of union complaints during the recent strikes. Recently, the Supreme Soviet only narrowly defeated, 205 to 190, a proposal to close all trading cooperatives.

The *agricultural* sector, a leader for the introduction of market incentives in some other communist reform efforts, also proved a disappointment. Although a new idea of "contract leasing" (long-term leaseholds to create an incentive for farmers) was announced, the potential leaseholders were harassed through high taxation, refusal to deliver inputs, and a lack of legal guarantees for leaseholders. They were dependent on a hostile state sector for forward and backward linkages. Moreover, the problems ran to the farmers themselves: They didn't know how to run farms. Their experience was as day-laborers, not small businesspersons. And given the uncertainty of the new incentive system, many people were wary of the risk of running a farm.

The *Law of Individual Labor Activity* represented a first timid step toward building a private sector. But this move was a half measure. It limited entrepreneurs to the service sector and kept prohibitions on hiring labor. Moreover, it was contradicted by the accompanying *campaign against "unearned income"*—which cracked down on the same small businesses the law on individual labor activity was supposed to encourage. Indeed, this was symptomatic of the Soviet society's ambivalence, even hostility, toward private enterprise. Unlike Eastern Europe or the Baltic states, the Soviet Union has no heritage of private enterprise on which to draw.

In summary, the piecemeal reforms of 1987 proved inadequate. They were not successful in activating unused reserves or substantially increasing efficiency. The reforms ran into bottlenecks and vested interests. Government spending increased and revenues fell. The large deficit was financed through printing more rubles, which sent inflation climbing (perhaps as high as 10%, according to some estimates). People no longer trusted the value of the ruble, so they began to exchange currency for real assets as quickly as possible. This hoarding of goods exacerbated shortages. The leadership recognized that perestroika must move even further.

VI. LESSONS FROM PERESTROIKA TO DATE

As of late 1989, perestroika has been comprised of a grabbag of economic reforms. Some are striking changes from Brezhnev's economic system. Unfortunately, not much has worked—at least as measured in terms of economic performance.

The political changes, however, have been exceptional. Gorbachev has decided that he needs to change the political system to support economic reform. Yet glasnost also opens up the failures of the Marxist system for the world, and Soviet citizens, to see.

The lessons of early failures are clear: [2]

1. The old Brezhnev model was totally discredited;
2. The Andropovian moral discipline fix was a bust;
3. GDR-type streamlining efficiency didn't work;
4. Piecemeal reforms of enterprises and industrial organization couldn't be successful as long as they operated in a system hostile to private initiative, competition, markets, and profits; and
5. Even the agricultural sector—the leading edge for the Hungarians and the PRC—was impervious to reform.

There was, however, a positive lesson as well: Reform must be comprehensive—economically and politically—to have a reasonable chance of success. A comprehensive program might take a number of forms, each involving different risks.

I divide comprehensive strategies into three categories: (1) *one-shot* radical reform all at once, the "Big Bang" approach, perhaps after some basic groundwork is laid; (2) *gradual* changes, but *sequenced* carefully to enable reforms to take hold; or (3) major transformation by *sector.*

Each strategy requires a shift from the ad hoc adjustment of the past. And there's the rub. It will be exceedingly difficult for a collective leadership to develop a comprehensive effort. This should be no surprise. It is hard for our decentralized political system to develop comprehensive programs, too. But our basic political and economic system works. The Soviet Union's does not. And many members of the Soviet political leadership remain ideologically resistant to the necessary reforms.

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[2] This list draws from a number of accounts, but the primary source is Anders Aslund, *Gorbachev's Struggle For Economic Reform, (1989).*

VIII. WHAT IS TO BE DONE

It's with a touch of irony that one asks, "What is to be done?," the title of a book written by Lenin in 1902. The thesis of this book is that a tightly knit, highly disciplined party vanguard exercising strong central control is necessary to achieve a revolution. But the Lenin of the 1920's introduced a New Economic Policy (NEP) that was more willing to decentralize economic authority, at least as a temporary expedient. Today many Soviet reformers are seeking to trace the antecedents of their market-oriented ideas to that NEP in order to win legitimacy in the Soviet ideological pantheon.

I don't consider it my place to offer detailed prescriptions to the Soviets. Their society is vastly different from ours. I would not presume to know the political and ideological constraints. And there is much we still don't know about what goes on there. But a few economic points stand out to me personally.

First market price reform is the key. Whatever the problem, the solution keeps coming back to market prices because they:

—signal the scarcity of goods and create incentives for production;
—allow firms to compete for inputs, not rely on a planner's allocation;
—enable markets to assess profitability;
—guide efficient investment;
—establish rewards for work; and
—offer a purchaser's assessment of quality.

In addition, the introduction of market prices is an important step toward achieving a *convertible ruble,* which is necessary for effective, competitive interaction with the international economy.

Second, there is a reasonable case that price reform cannot proceed until the Soviets have *stabilized the value of the ruble.* The massive deficits financed by printing rubles and the large number of rubles chasing too few goods have led Soviet citizens to prefer real assets to monetary assets of declining value. If prices were freed at present, the demand for goods would send prices soaring. The Soviets refer to this problem as the ruble overhang.

Policies to absorb excess rubles might include: selling state-owned assets such as apartments, equipment, and land (with the additional benefit of building private ownership); issuing financial instruments with positive rates of return after inflation; and possibly selling consumer good imports at a substantial markup. The sizable Soviet gold stocks might also be used to back the value of the ruble or government bonds; since the Soviets are major gold producers, they could use future gold production to regulate the money supply.

The Soviets would need to complement these monetary policies with fiscal restraint to avoid recreating a new ruble overhang. Spending restraint could come from cutting subsidies to firms, defense spending, expenditures on massive for-show construction projects, and military aid to foreign clients (e.g., billions of dollars given to Cuba, Nicaragua, Afghanistan, Ethiopia, Vietnam and Cambodia). Improved production efficiency, especially in agriculture, could also reduce government spending. Reliance on high taxes, in contrast, will hinder the development of business initiative.

Third, market prices and macroeconomic stabilization measures will not suffice in the absence of *microeconomic reforms in industrial organization.* Enterprises and cooperatives must be free to compete. Monopolies must end. State controls should not limit the ease of entry and exit of competitors. Market signals, not central planners, should allocate resources.

Competition in the neglected service sector could provide a real shot in the arm for perestroika. Unlike manufacturing, the service sector does not require dismantling existing state enterprises and controls. Its products could be enjoyed directly by consumers.

Fourth, the Supreme Soviet must establish *legally certain property rights.* While ideology may constrain references to private property, other arrangements may be able to substitute for a time—such as transferable, long-term leaseholds. If Soviet citizens are uncertain about their rights to assets, the profit motive could lead to counterproductive exploitation and disinvestment. Also, the effectiveness of any program to sell government assets obviously depends on the rights of the purchasers to hold, use, improve, and dispose of those assets.

Fifth, the Soviet Union will have to move carefully in substituting *tax and regulatory* policies for confiscation and production directives. The power to tax remains the power to destroy. Heavy-handed regulation can choke off striving enterprises. Ironically, excessive decentralization of political authority over economic matters

could enable local hostilities against profit-making to take the form of stifling controls and taxation.

Finally, the Soviet Union will need to develop a *"safety net"* that protects those who cannot fend for themselves in the changed economic environment. For example, industrial competition is likely to require unemployment insurance and worker retraining programs. The Soviets will need a bankruptcy law that permits the restructuring or liquidation of failed enterprises. If enterprises are freed of the staggering burden of supplying multiple social services, the government will need to encourage new providers.

These six tasks are a tall order for perestroika. But even this brief analysis points out the interrelationships among necessary reforms. Action on any one element standing alone will not suffice. The pieces must fit together if the new economic machine is going to work.

VIII. WHAT CAN OR SHOULD THE UNITED STATES DO?

This Administration wants perestroika to succeed. We believe it can help create a more open society, institutionalize interests that will resist military adventurism, establish claims for societal resources that were previously channeled into the military, and transform the Soviet Union into a more cooperative contributor to the international community.

It's in our long-term foreign policy interest for more people around the globe to share our core values—democracy and self-determination, respect for individual rights and freedoms, economic liberty, reliance on a market economy, and peaceful resolution of conflicts. So we welcome the Soviet Union's movement toward those values.

We must be realistic, however, in assessing what actual influence we can have on the success of Perestroika. As President Gorbachev has stated on numerous occasions, the success of Soviet restructuring depends on the Soviets themselves. It is "old thinking" to believe that Western technology, credits, and know-how could produce a Soviet economic turnaround. That was the failed approach of General Secretary Brezhnev—the "Era of Stagnation" in Gorbachev's words.

As Ed Hewett, a noted analyst of the Soviet economy has written, "The dynamics of reform in the USSR are primarily internal; what happens is affected by, but hardly driven by, developments in the outside world. Western influence, through various policies, will at most be capable of forcing minor corrections in the course of reform."

Nevertheless, I believe our policy can support President Gorbachev's reform policies in *six mutually advantageous* ways:

First, and above all, Gorbachev needs a *stable international environment* so that he can focus the energies of his country on internal change. As Gorbachev said on August I, "We now need, perhaps more than ever before, favorable external conditions so that we can cope with the revolutionary and broad tasks toward renewing Soviet society."

We have tried to create these conditions by placing increased emphasis on working with the Soviets to *resolve* the dangerous *regional conflicts* that dot the globe. At both the expert and Ministerial levels, we regularly examine opportunities to achieve peace and reconciliation in Central America, Afghanistan, Asia, Lebanon, the Middle East, and Africa. We remain dismayed, however, at the pattern of ongoing Soviet military support for conflict in many of these regions.

Second, arms control that *reduces the risk of conflict* can help both of us. Appropriate arms control agreements can help stabilize the, international environment by reducing the risk of surprise attack. Such agreements can also reduce the burden of defense spending. This "peace dividend" would be especially notable for the Soviets if we are able to reach an agreement to reduce conventional forces. That is one reason President Bush has maintained the initiative in the CFE negotiations. We also seek mutually beneficial results in START, the defense and space talks, chemical weapons, and nuclear testing.

Third, the peaceful achievement of *reform* in *Eastern Europe* would simultaneously serve as a model to boost Soviet reformers, enable the Soviets to reduce further their military presence, and peacefully stabilize the region through freedom, openness, and restructuring, politically and economically. Accordingly, this Administration has and will continue to work actively with other nations of the West to support the process of change in Eastern Europe in a non-threatening fashion.

Fourth, our efforts to *institutionalize human rights and the rule of law* and to encourage *common action on transnational dangers* like drugs, the environment, and terrorism can help build a more pluralistic and open Soviet society. Pluralistic

institutions, in turn, strengthen the foundations for the success of perestroika and make its gains more difficult to reverse.

Indeed, this is the logic behind the President's May 12 initiative on Jackson-Vanik. If the Soviets enact and implement emigration legislation consistent with international standards, we will work with the Congress to seek a waiver of Jackson-Vanik, paving the way for the grant of most-favored-nation trading status. Indeed, we hope the Supreme Soviet will codify the new open Soviet emigration policies later this year or early next so we can move forward on this issue.

Fifth, we may be able to offer the Soviets some *technical economic assistance* as they struggle with the massive task of restructuring their economy. Foreign Minister Shevardnadze and I have had lengthy discussions on the problems of perestroika and the nationalities. At our Wyoming Ministerial, we also had informal expert level discussions of economic reform. We intend to continue to conduct these discussions as part of our bilateral issues working group. Our talks can be supplemented by other exchanges' of private economists and various government specialists. For example, the Soviets need technical help in creating a statistical base to enable them to evaluate reforms. The Department of Commerce's Joint Commercial Commission plays an important expert role in the field of trade relations.

Finally, we can challenge the Soviets to implement the *domestic economic changes* that are the critical *predicate for increased international economic interaction.* It is my opinion, however, that the Soviet economic system remains significantly incompatible with the operations of institutions like GATT, the IMF, and the World Bank. The *ruble is not even convertible internally, much less with other currencies.* As long as prices are set by planners, not markets, it is difficult to see how the Soviet economy would comport with the GATT principle of transforming trade barriers into tariffs that are set as percentages of prices. An administered price change could easily offset the gain of a bargained tariff cut. Furthermore, given the size of the Soviet Union, its membership could prove disruptive of the Bretton Woods institutions—especially if the long-term Soviet commitment to the values represented by those institutions remains uncertain.

While the Soviet Union is still evolving toward Western political and market values, I believe we best serve ourselves and the Soviets by insisting that trade and other economic relations be conducted on a commercial basis. Indeed, it was the effort to meet the requirements of the 'world market economy that led the NIEs of Asia onto a successful path of export-led growth. Operating under these terms, we welcome mutually-beneficial, *non-strategic* trade. Our streamlined COCOM system should be enforced actively. Easier economic terms are neither in our interest, nor would they speed the cause of Soviet reform.

IX. CONCLUSION

President Gorbachev wants to remake the Soviet Union. That's what perestroika and glasnost are all about. That may not have been his aim in 1985, but the failures of the early reform efforts convinced him and his colleagues that change must dig deeper into Soviet society. These are utilitarian, purposeful, and determined men—yet we should recognize that they are not pursuing freedom for freedom's sake. Their aim is to modernize the Soviet Union, but their frame of reference is not the age of reason or the spirit of enlightenment. They are the descendants of other great Russian modernizers, Like Peter the Great and Alexander II, fundamentally rooted in the unique Russian experience.

Gorbachev has not been deterred by the failure to produce economic results. To the contrary, his recourse when facing obstacles—as we saw again this summer—is to use problems to further consolidate his authority. Then he takes steps to press political and economic reforms further. He does not fold; he does not call. He raises the stakes.

Nevertheless, Gorbachev and his allies still must operate as members of a collective leadership with very different notions of what reform means. So the leadership decisions are often compromises. The results are often confusing.

This ad hoc policy development process is a severe handicap when the objective is to overhaul a society's attitudes toward work, competition, property, responsibility, and freedom. Policy is often incoherent. People remain uncertain. No one really knows what the future will bring.

It would be a mistake, however, to conclude that the challenges are too daunting or that the impediments to success are too great. So far, Gorbachev has secured greater power over the years, and he reveals every intention to "stay the course. The jury is still out on whether he will succeed or fail.

Yes, we do want perestroika and glasnost to succeed. But we also recognize the limits of our influence. This is an internal evolution. Its success depends ultimately on the Soviet people.

For our part, the United States should and will, of course, pursue our own national interest. But that interest does not exist in isolation from the events taking place in the Soviet Union and Eastern Europe. I see our task as a *creative search for points of mutual advantage*—areas where both we and the Soviets can gain. In my opinion, our recent broad-based engagement at the Wyoming Ministerial—on regional conflicts, arms control, human rights, transnational relations, and bilateral topics such as economics—is a good example of this policy in practice.

RESPONSES TO QUESTIONS FROM SENATOR DANIEL PATRICK MOYNIHAN

Question. In his December 7, 1988 address to the United Nations, General Secretary Gorbachev stated: "We think that the jurisdiction of the International Court in the Hague with regard to the interpretation and application of agreements on human rights must be binding on all states. How has the United States responded to this suggestion? What do you see as the advantages of accepting such a suggestion? Do you see any disadvantages to accepting the suggestion?

Answer. The United States has not responded to this suggestion by General Secretary Gorbachev specifically, but has rather initiated broader-ranging discussions with the Soviet Union with the aim of enhancing the role of the International Court in resolving disputes arising under a variety of agreements. The details of these discussions are discussed elsewhere.

The Administration welcomes any steps by the Soviet Union to promote the settlement of disputes by neutral bodies such as the International Court. Nevertheless, we do not regard the Soviet action either as having much practical consequence or as a substitute for meaningful reform. The International Court has not played a major role in human rights matters. No country that is a party to any of the human rights agreements in question has ever brought a case arising under those agreements to the International Court.

Question. Could you provide details regarding the content of the recent U.S.-Soviet agreement to add five topics to the compulsory jurisdiction of the International Court? What do you consider to be the advantages of this agreement? Are the U.S. and the Soviet Union discussing the possibility of expanding this agreement to cover additional topics?

Answer. The Administration has been engaged for some time in discussions with the Soviet Union exploring various possibilities for enhancing the role of the International Court in resolving international disputes. Central to these discussions is the proposition that the jurisdiction of the Court must be based on the clear consent of the parties.

We have reached preliminary agreement with the Soviet Union on proposals for an approach to accepting the jurisdiction of the Court that is based on these considerations. This approach does not simply concern the addition of certain "topics" to the Court's compulsory jurisdiction. Rather, the approach includes, among other features, greater use of chambers of the full Court and express exclusion from the Court's jurisdiction of politically sensitive issues, such as those involving the use of force and national security, in the absence of consent. At their meeting last September, Secretary Baker and Foreign Minister Shevardnadze approved of these proposals and agreed to take them to the other Permanent Members of the UN Security Council with a view towards developing a common approach to the jurisdiction of the Court that can be embodied in an agreement that would be open to other countries. The legal advisers of all five Permanent Members met last month to consult on this matter, and consultations are expected to continue.

Question. Recent reports and studies suggest that the central Intelligence Agency estimate of the size of the Soviet economy exaggerates its size by a substantial margin. This includes Anders Aslund's study, *Gorbachev's Struggle for Economic Reform*, cited in your statement. What is the current estimate of the size of the Soviet gross national product? Please explain the basis upon which this calculation is based. In particular, how does the estimate account for the non-convertibility of the ruble and the disparity between the official value of the ruble and its value on the black market in the Soviet Union? What are the official and the black market rates for the ruble (in U.S. dollars)? Where does the Soviet economy rank among the largest economies of the world? When economies are compared on the basis of "purchasing power parity," how does the Soviet economy rank for size? How has the

U.S. estimate of the size of the Soviet economy changed over the last 10 years? What was the basis for any change made in the estimate?

Answer. The CIA estimates that Soviet GNP in 1988 was 52 percent of the value of U.S. GNP. This estimate places the Soviet economy in second place in the world, followed at some distance by Japan, West Germany, France, the United Kingdom, and Italy. The estimated values are:

	1988 GNP (trillion US$)	Index (US = 100)
United States	$4.86	100
Soviet Union	2.54	52
Japan	1.76	36
West Germany	0.87	18
France	0.76	16
United Kingdom	0.76	16
Italy	0.76	16

The CIA calculates the value of Soviet GNP in dollars using purchasing power parity ratios, the accepted method for such international comparisons. These ratios show the purchasing power of the ruble relative to the dollar for individual goods and services produced both in the Soviet Union and the United States. To the extent that it is possible to do so, quality differences are taken into account when calculating these ratios. Nonetheless, many intangible differences such as convenience of purchase and quality of services are so difficult to quantify that the value of the ruble relative to the dollar probably is still somewhat overstated, perhaps by as much as ten percent. Because the supplies of labor and capital and other economic conditions differ greatly between the two countries, these purchasing power parity ratios vary greatly, from much less than one ruble per dollar to several rubles per dollar, depending on the good.

The purchasing power parity ratios are then used to convert each component of Soviet GNP into dollars and each component of U.S. GNP into rubles. Two ratios of total GNP can then be computed, one with both economies valued in dollars and the other with both economies valued in rubles. Neither ratio is superior to the other. For 1988 the ratio of Soviet to U.S. GNP in dollars was 68 percent and the ratio in rubles was 40 percent. Because most people are more comfortable dealing with a single number rather than a range, economists usually compute an average of these two ratios. The most typical average is the geometric mean, which differs by an equal percentage from the two ratios. In this case, the geometric mean is 52. Thus we estimate the Soviet economy to be 52 percent as large as the U.S. economy.

This methodology uses only the actual purchasing power of the dollar and ruble in acquiring comparable goods and services in the U.S. and the Soviet Union. It does not rely in any way on the official exchange rate set by the Soviet government or the black market rate. These currency conversion rates should not be used because they are primarily determined by factors other than relative prices in the USSR and the United States. In particular, the black market rate is currently strongly affected by the widespread shortages of goods in Soviet retail stores. The only way to obtain high-demand goods often is with dollars or other hard currencies. The resulting demand for hard currency has driven the value of the ruble down to an unrealistically low level. Current estimates are that a ruble can be obtained on the black market for $0.10 to $0.20. The recent devaluation of the ruble for tourist transactions and a limited range of other transactions set the ruble at $0.16.

The CIA has consistently used the same purchasing power methodology for estimating the size of the Soviet economy relative to that of the United States and other countries. According to CIA estimates, Soviet GNP increased from 55 percent of U.S. GNP in 1979 to a high of 59 percent of U.S. GNP in 1982, then declined steadily to 52 percent of U.S. GNP in 1988.

To place these GNP estimates into perspective, it is useful to convert them to a per capita basis and to compare consumption per capita. Because the Soviet population is larger than the U.S. population, Soviet GNP per capita was only 45 percent of U.S. GNP in 1988. Moreover, the Soviet Union allocates more of its resources to producing investment and defense goods than does the U.S. As a result, the per capita availability of consumer goods and services in the Soviet Union is only 30

percent of that in the U.S. THe following tabulation shows indexes of per capita GNP and per capita consumption for selected countries in 1985.

	Index of per capita GNP (US = 100)	Index of per capita consumption (US = 100)
United States	100	100
West Germany	85	66
France	79	78
Japan	75	59
United Kingdom	69	64
Italy	59	55
Spain	51	53
USSR	46	32
Mexico	32	30
Portugal	30	27
Argentina	28	29

Question. What is the official Soviet figure for the amount of the Soviet gross national product which is devoted to the military? How does this compare with the U.S. estimate? How has the U.S. estimated varied over the last 10 years?

Answer. The official Soviet figure for the share of GNP devoted to defense is nine percent. This figure is calculated from the newly released Soviet defense budget, which is 77.3 billion rubles expressed in current prices. The Soviets have given a breakout of the military budget by major resource category, but have not specified precisely what activities are covered in these categories. For example, Soviet military aid to LDCs is not identified anywhere. Until more information is provided, it will be difficult to determine the basis of the Soviet burden calculation. Based on the limited information the Soviets have made available so far, intelligence community analysts believe that the newly reported Soviet defense budget excludes some activities included in US estimates of Soviet defense expenditures such as civil defense, military construction, and civilian employees of the military. There is also mounting evidence that the prices in which the new budget is calculated may fail to capture the full costs of producing the goods and services that it does include.

U.S. intelligence estimates of the Soviet defense burden have increased over the past decade from 13–15 percent of GNP in the late 70s to 15–17 percent by 1988, (calculated in constant 1982 rubles). The increasing burden was a consequence of continued growth in military programs, particularly weapons procurement and R&D as reflected in close monitoring of defense facilities. As a consequence, total military expenditures continued to grow at about 2–3 percent annually. As the economy faltered in the 80s, however, defense expenditures grew faster than the GNP and the defense burden is estimated to have increased to the 15–17 percent level. The strain that sophisticated weapons programs place on particular industrial sectors is, however, even more severe than reflected by the GNP burden calculation. The Soviets have revealed that 60 percent of defense-industry output is currently weaponry-related and that resources must be reallocated to the civilian sector if economic recovery is to be achieved. These shifts are underway by means of force reductions and defense industry conversion and, if sustained, the defense burden should begin to gradually diminish during the 1990s.

Responses to Questions From Senator Packwood

Question. President Bush has stated that the Soviets must institute and implement a law concerning emigration in order for the U.S. to grant MFN status. Based on your meetings with Soviet Foreign Minister Edward Shevardnadze, what progress has been made concerning these emigration levels?

Answer. Emigration from the Soviet Union has grown from a total of 1,944 people in 1986 to 25,891 in 1987 and 79,845 in 1988. Through the end of August 1989, more than 100,000 people had left the USSR.

This dramatic increase has occurred because of some fundamental changes in soviet emigration practice.

—persons applying for exit permission no longer lose jobs and apartments;

—refusals for access to state secrets or purported financial obligations to others appear to be used much less arbitrarily; and
—Soviet authorities are allowing greater numbers of persons not in the traditional groups of emigrants (Jews, Germans, Evangelical Christians and Armenians) to apply to leave.
—these changes have not been codified and are not uniformly enforced, but have been sufficient to give hundreds of thousands of Soviet citizens the courage to apply to leave.
—the Soviets have acknowledged their practices are not up to the standards they have committed themselves to in Helsinki and Vienna. they have drafted new emigration legislation which, if passed in the form they have shared with us, will bring them very close to acceptable international standards.
—we are continuing to press them to pass these laws and to faithfully and uniformly enforce them when passed.

Question. During your press conference in Wyoming, you stated that you were prepared to move to "eliminate" the linkage between trade and human rights when the Soviets institutionalize their emigration policy. Does this mean that the Administration would move to repeal the Jackson-Vanik amendment, rather than simply grant a waiver, if the Soviets do institutionalize their emigration policy?

Answer. My meeting with Foreign Minister Shevardnadze did not result in any changes in our policy on Jackson-Vanik. As we have repeated many times, if the Soviets enact and implement emigration legislation which is consistent with international standards, we will work with Congress to seek a Jackson-Vanik waiver.

Question. Please describe the substance of any discussions you had with Mr. Shevardnadze on the issue of human rights.

Answer. During last month's discussions with Foreign Minister Shevardnadze I reiterated the fundamental role of human rights in the U.S.—Soviet relationship. I noted our pleasure in the progress that has been made and our interest in moving forward.

I asked the Soviets to "zero out" the cases we have raised about individuals who have been denied permission to emigrate on security or other grounds. A significant number of these cases have been favorably resolved, but we want them all resolved.

The Soviets explained that they are proceeding with new legislation liberalizing exit/entry practices, freedom of conscience, freedom of the press, and other subjects. These will need to be debated and approved by the Supreme Soviet, probably next year. I expressed hope for prompt action on this legislation. I reiterated the President's policy that we would be willing to grant MFN status after the Soviets had adopted new emigration legislation bringing them into compliance with their CSCE commitments and we had seen that it was being implemented.

I welcomed the spirit of cooperation that had led to the visit last spring of a group of U.S. psychiatrists to the Soviet Union to look into allegation of psychiatric abuse. The Soviets are planning to send a group of psychiatrists to the U.S. for further discussions. We noted that out of those individuals interviewed by the U.S. psychiatrists all but one of the individuals we believed had been improperly committed had now been released from hospitalization.

We discussed our agreement to exchange information on criminal cases of interest. We have given the Soviets a list of prisoners imprisoned on criminal charges where we believe there may have been political motives behind the charges and sentencing. The Soviets have agreed to provide information, and in turn have given us a list of U.S. prisoners. We will naturally be providing full information on these U.S. individuals, available freely from court records.

Shevardnadze emphasized that the Soviets are striving to institute a law-based state, which he said is necessary for the future of the country. We are encouraging this process introducing the rule of law and expanding our dialogue with the Soviets to include exchanges of lawyers, judges, and other legal experts. We are also beginning programs in other areas of humanitarian cooperation such as help to the disabled, occupational safety, and programs for the aging.

The Soviets questioned the U.S. practice of admitting Soviet citizens into the U.S. by granting them refugee status. They asked if the U.S. could find another way of characterizing these emigrants, given Soviet moves to permit freer emigration. We explained the legal basis of our determination of refugee status and the fact that we needed to deal with Soviet emigrants under current law.

Question. Could you clarify exactly the conditions the Administration would require the Soviet Union to satisfy before the President will seek a waiver of Jackson-Vanik? And are those conditions the same conditions advocated by many of the U.S. Jewish groups?

Answer. As I said in my testimony before the committee, if the Soviets enact and implement emigration legislation which is consistent with international standards, we will work with Congress to seek a waiver of Jackson-Vanik.

Most of the Jewish groups in the U.S. agree that it is time to consider moving on a Jackson-Vanik waiver, although there are a variety of opinions on how far and how soon we should move. We recognize that a Jackson-Vanik waiver will require a strong consensus between the executive branch, the Congress, and the American public. For this reason, we are pursuing a public dialogue on this issue with Congress and with interested groups in the United States.

Responses to Questions from Senator Dole

Question. Does the Administration support creation of a high level government commission or task force to deal with economic issues with a similar Soviet group—in effect, adding economic relations as a co-equal agenda item to arms control, regional issues and human rights?

Answer. We already have a cabinet-level forum, the Joint Commercial Commission, which was established almost two decades ago to deal with U.S.-Soviet economic issues. Its eleventh meeting will be held in Washington in November, and the U.S. delegation will be led by Secretary of Commerce Mosbacher. We do not believe that establishing a new commission would serve a useful purpose.

When the Secretary meets with Foreign Minister Shevardnadze, bilateral economic issues are discussed within the framework of the working group on bilateral issues. We have also been holding informal discussions on the progress of perestroika that deal with economic problems. We see no need to change the structure of these discussions at this time.

Question. What is the Administration response to complaints from U.S. businessmen that we are "dragging our feet" in negotiating a bilateral tax treaty?

Answer. We have told the Soviet side that we are willing to open discussions on a new U.S.-USSR treaty for the avoidance of double taxation whenever they are ready.

Prepared Statement of Senator Max Baucus

U.S.-Soviet relations have entered a new era. Over a period of only months, U.S.-Soviet relations have gone from being dominated by the arms race to being dominated by a peace race. President Bush and General Secretary Gorbachev have been practicing one-up-manship in conventional and nuclear arms control arena with each offering larger concessions.

If this trend is sustained, it will profoundly change the world we live in. Already, it has changed the way we look at the Soviet Union.

There are other changes afoot as well. Just a few years ago, military and diplomatic concerns dominated our relationship with the rest of the world—allies and adversaries alike. But a shift is underway. Economic concerns are rising on our agenda.

Now we spend nearly as much time talking with our allies about trade concerns as we spend talking about military and diplomatic issues. But this transformation has been much slower coming with regard to the Soviet Union and the east bloc.

With the Soviet Union, military and geopolitical disputes have so dominated the agenda that trade and economic issues were seldom if ever raised. But with the military threat seemingly receding, it is time to take a new look at the potential trade and economic relationship between the U.S. and the Soviet Union.

THE JACKSON-VANIK PROVISION

On May 12th, President Bush signalled that he was willing to work with Congress to grant a waiver of the Jackson-Vanik provision for the Soviet Union—opening the door for an expanded trade relationship between the Soviet Union and the U.S.

The Jackson-Vanik provision links the issue of emigration from the Soviet Union to favorable tariff treatment and access to credit. Essentially, Jackson-Vanik prohibits granting Most Favored Nation tariff treatment or extending government loans to the Soviet Union until it liberalizes its emigration policy.

The President may waive Jackson-Vanik for the Soviet Union or the other countries effected by the provision by certifying to Congress that the nation has liberalized its emigration policy. Congress can then disapprove the President's waiver with a concurrent resolution or allow it to go into effect.

The Soviet Union has been liberalizing its emigration policy. The statistics tell the tale. In 1973 at the peak of detente, the Soviet Union allowed almost 35,000 Jewish emigres to leave. In the years after passage of the Jackson-Vanik provision, Jewish emigration declined to a low of just over 13,000 in 1975. In the late 1970s, Jewish emigration increased sharply. In 1979, more than 51,000 Jewish emigres left the Soviet Union.

But the U.S. failed to respond and superpower relations deteriorated in the wake of the Soviet invasion of Afghanistan. The flow of emigres dwindled. At the low point between 1984 and 1986, only about 1000 Jewish emigres were allowed to leave each year.

But Soviet emigration levels have climbed sharply. In 1989, a record number of emigres may be allowed to leave the Soviet Union. Already more than 100,000 refugees—Jews, Armenians, Germans, and Evangelicals—have left the Soviet Union. By the end of the year, a total of 150,000 may be allowed to leave and next year the total may climb to 250,000.

The Soviet Union is now drafting permanent changes in its immigration laws. As the Washington Post has reported, the flow of Soviet emigres is already straining the capacity of the U.S. to absorb them.

Debate on waiving the Jackson-Vanik provision has already begun within and among emigre advocacy groups. One major group supports an immediate waiver for the Soviet Union. Others, such as the National Conference on Soviet Jewry, have noted that important problems remain to be resolved.

Certainly, the ball is still in the Soviet's court. The Soviet Union must come through on its promises to reform emigration practices and address some of the long-standing emigration cases. The U.S. must not back away from its commitment to Soviet emigres.

But it is time for the President and the Congress to begin working directly with Soviet officials to establish clear and detailed criteria for an acceptable Soviet immigration policy.

The best way to cement the progress we have made and ensure further progress is to establish economic ties with Moscow—ties that give the Soviets a tangible reason to proceed with Glasnost and continue to liberalize its emigration policy.

ECONOMIC IMPLICATIONS OF TRADE WITH THE SOVIET UNION

In the short term, the trade implications of a Jackson-Vanik waiver may be limited. The Soviet Union and the U.S. have never been significant trading partners. Neither has ever accounted for more than 1% of the other's total trade.

In 1988, U.S.-Soviet trade totalled only about $3.3 billion up from $2 billion in 1987. Interestingly, the Soviet Union is one of the few nations with which the U.S. runs a trade surplus. In 1988, the U.S. exported about $2.7 billion in goods—mostly agricultural products—to the Soviet Union. The Soviet Union exported only about $650 million to the U.S.

Jackson-Vanik has been part of the reason for low trade flow, but there have been other reasons—the shortage of hard currency in the Soviet Union, U.S. export restrictions, and the lack of competitive Soviet exports.

Even if the Soviet Union was granted lower Most Favored Nation tariff rates and access to U.S. credit, there would be no surge in Soviet exports to the U.S. Soviet sources have estimated that exports to the U.S. might increase by only about $30 million in the first year if Jackson-Vanik were waived.

But the Soviets would certainly be able to export a few products to the West. And the opening of western markets would encourage the Soviet Union to develop some competitive export industries. These export industries could help the Soviet Union earn some hard currency and, in turn, import products from the west to satisfy Soviet consumers.

The Soviet Union is badly in need of everything from food processing technology to medical devices. We can be almost certain that the dollars the Soviets earn exporting to the U.S. would rapidly be used to purchase U.S. exports. Eventually, a strong trade relationship could be established between the U.S. and the Soviet Union. U.S.-Soviet economic ties are already blossoming in two areas: U.S. agricultural exports and corporate joint ventures.

U.S. AGRICULTURAL EXPORTS

The Soviet Union has long been an excellent customer for U.S. agricultural exports. The agricultural trade relationship was temporarily disrupted by the grain embargo, but it has recovered.

The U.S. is once again a major source of Soviet agricultural imports. Last year, the Soviet Union is the largest overseas market for U.S. wheat—importing more than three times as much as the number two customer. In total, the Soviet Union imported about $2 billion worth of U.S. agricultural exports in 1988. Soviet representatives have made it clear that they view Jackson-Vanik as a major political barrier to further increases in U.S. agricultural exporters.

Most major grain exporting companies and major agricultural groups advocate repealing or waiving the Jackson-Vanik provision because it dampens Soviet demand for U.S. agricultural exports. If Secretary Gorbachev continues on his course toward Glasnost and Perestroika, Soviet agricultural imports are likely to increase.

As a recent White House study noted: "There are very real possibilities of expanding trade with the Soviet Union. Opportunities exist in many areas, but agriculture, food, and related industries hold particular promise." Thus, waiving the Jackson-Vanik provision would help the U.S. build upon its already strong foothold in a major growth market for U.S. agricultural exports.

The Administration just announced that it plans to begin negotiation on another long term agricultural trade agreement with the Soviet Union. Perhaps linking possible negotiations to extend MFN status to the Soviet Union with the long term grain agreement is the best way to ensure that the agricultural trade between the superpowers expands in coming years.

JOINT VENTURES

The U.S. business community has been much quicker to respond to changes in the Soviet Union than the U.S. government. A number of U.S. businesses, including Honeywell, McDonald's, and Combustion Engineering, have already opened successful joint ventures in the Soviet Union.

These joint ventures are the beach heads that the U.S. business community can use to get access to a $2.4 trillion annual market of 286 million people. They open the door to U.S. exports to the Soviet Union and build a long-term U.S. commercial presence in the Soviet Union.

Unfortunately, the U.S. will face stiff competition in the Soviet market. Japan and Europe have also been working to build ties in the Soviet market. In fact, both have a larger presence in the Soviet Union than the U.S.

U.S. firms have about $23 million invested in Soviet joint ventures. But Japan now has $30 million invested in the Soviet Union, West Germany has $64 million, Italy has $62 million, and France has $43 million.

As is the case with agricultural exports, the U.S. business community believes that waiving the Jackson-Vanik provision would significantly improve the atmosphere for developing further joint ventures and help it meet the Japanese and European competition head on. A Jackson-Vanik waiver could also have direct benefits to joint ventures by opening U.S. credit programs to joint ventures.

WAIVING JACKSON-VANIK

Some have said that we should be cautious. We should not waive Jackson-Vanik until we are sure that changes in the Soviet Union are permanent. They point to China and note that we can never be sure if changes in the communist world will last. Even if refugees are being allowed to leave the Soviet Union now there may be a crackdown at some future date.

The lesson of China is well taken. But it is worth noting that the U.S. already extends MFN tariff treatment to China, Iran, Syria, Iraq, and a number of other nations known to violate human rights, support terrorism, or engage in other abhorrent behavior. Does it really make sense to treat the Soviet Union less favorably than China, Iran, Syria, and Iraq—especially in light of the progress made in the Soviet Union? If the emigration policy of the Soviet Union continues to improve, it surely does not. Further, economic ties with the Soviet Union encourages the Kremlin not to resort to a crackdown.

It is a way of encouraging the Soviet Union to continue to liberalize emigration, improve respect for human rights, move toward democracy, and improve ties to the west. And, if worse comes to worse, and the Soviet Union does slide back toward repression and totalitarianism, the waiver can always be terminated leaving us no worse off than we are now.

But if we don't act, we could miss a truly historic opportunity to promote emigration and human rights while opening a tremendous new market for U.S. farmers and businessmen.

Some are fond of saying that we should not be paying for Perestroika. That may be true. But nor should we continue a policy of economic sanctions against the Soviet Union. A two way trade relationship is in both countries best interest.

The President has already said he is ready to work with the Congress, the business community, emigre advocacy groups, and the Soviet Union to fashion an acceptable waiver of the Jackson-Vanik provision. Its time for us all to roll up our sleeves and get down to work.

EDITORIAL/OPINION

Waive Limits on Soviet Trade

By MAX BAUCUS

For decades, U.S.-Soviet relations have been dominated by the cold war and the arms race. But a sea of change is under way. Glasnost and perestroika have changed the face of the Soviet Union. Under Mikhail Gorbachev, the Soviet Union appears to be far less interested in a geopolitical struggle with the United States and far more interested in internal economic reform.

As the geopolitical competition between the United States and the Soviet Union eases, it is time to take a fresh look at trade relations between the superpowers. Bilateral exchanges have never accounted for more than 1% or 2% of either the United States' or the Soviet Union's total trade.

Trade has been constrained by a number of economic and political barriers. Foremost among them is the Jackson-Vanik Amendment to the 1974 Trade Act, which prohibited granting the Soviet Union most favored nation tariff treatment and access to government credit programs until the Soviet Union liberalized its emigration policy.

But on May 12, President Bush announced that he was willing to consider waiving the Jackson-Vanik Amendment and granting the Soviet Union favorable trade treatment provided the Soviet Union liberalized its emigration policy. The Soviets seem to be obliging.

Emigration levels have been surging under Mr. Gorbachev. This year, the Soviet Union may allow more emigres than in any year since we began keeping records.

The Soviets also have announced their intention to radically reform their emigration law this fall. If these promises are kept, waiving the Jackson-Vanik Amendment and granting the Soviet Union more favorable trade treatment would encourage continuation of these reforms.

What would waiving Jackson-Vanik mean in economic terms? A variety of problems, most notably lack of competitive export industries, will limit Soviet exports. Soviet authorities have indicated that most favored nation benefits, which would make duties on Soviet goods the same as those on imports from almost all other countries, would increase exports to the United States by only about $30 million a year.

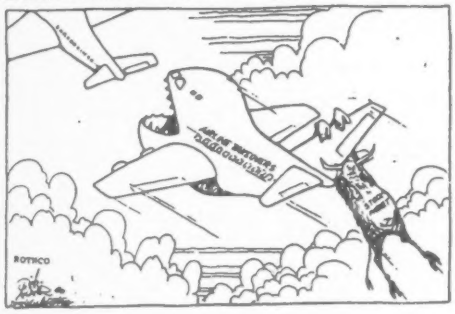
But waiving Jackson-Vanik would improve overall relations and certainly improve the climate for commercial ventures. In the longer term, the potential is great.

The Soviet Union is one of the very few nations with which the United States runs a trade surplus. In 1988, the United States exported about $2.7 billion in goods — mostly agricultural products — to the Soviet Union. The Soviets exported only about $650 million to the United States.

Waiving the Jackson-Vanik Amendment likely will allow the United States to increase exports of agricultural products and other consumer goods and improve its overall trade balance.

The Soviet Union is already a major customer for U.S. agricultural exports. In 1988, it was the American farmer's largest export market for wheat, importing three times as much as the No. 2 customer. And this market is likely to grow. A recent White House study noted: "There are very real possibilities of expanding trade with the Soviet Union. Opportunities exist in many areas, but agriculture, food, and related industries hold particular promise."

Major U.S. agricultural exporters argue that Jackson-Vanik encourages the Soviet Union to treat the United States as a seller of last resort. Waiving Jackson-Vanik could end this stigma and earn American farmers a larger share of the Soviet market. Further, experience has shown that any hard currency gained from Soviet exports to the United States probably will be used to purchase U.S. agricultural products.



The potential is not limited to agriculture. A number of U.S. businesses, ranging from Honeywell to McDonald's, have already established joint ventures in the Soviet Union. These are the beachheads that will allow U.S. businesses to enter the growing Soviet market.

U.S. firms now have $23 million invested in the Soviet Union. But the competition is stiff. Japan already has $30 million invested in the Soviet Union, France $43 million, Italy $62 million and West Germany $64 million. In the view of many joint venture operators, a waiver would increase commercial opportunities for U.S. business.

If the Soviets fulfill their present commitments on emigration, the Jackson-Vanik Amendment should be declared a success and waived.

As it stands, the Jackson-Vanik Amendment requires the United States to deny the Soviet Union the same trade benefits that it extends to Iran, Iraq, Syria and China. Assuming reform continues in the Soviet Union, this makes absolutely no sense. At this stage, economic cooperation will do more to speed reform in the Soviet Union than geopolitical confrontation.

Max Baucus, D-Mont., is chairman of the U.S. Senate Finance Committee's International Trade Subcommittee.

PREPARED STATEMENT OF SENATOR LLOYD BENTSEN

Over the last four years, we have seen some remarkable changes in Soviet policies. Most importantly, emigration has increased, and the President said earlier this year he would be willing to waive the stipulations of the Jackson-Vanik amendment under circumstances that are now foreseeable. I agree. We ought to reinforce behavior we have been seeking.

Fifteen years ago, I was a cosponsor of the Jackson-Vanik amendment. At that time, human rights was an American ideal, but it was not yet our foreign policy. Since then, human rights have become a cornerstone of our foreign policy, widely supported by members of both political parties. So all Americans are pleased to see improvements in human rights in the Soviet Union.

But under our law, there is more to our foreign policy than human rights. There is a pragmatic business side as well. To get our most-favored-nation tariff treatment, a Communist country must go beyond Jackson-Vanik standards to negotiate a trade agreement with us that makes sense in economic terms.

In this area, too, there are some hopeful signs from the Soviet Union. In fact, some of the most important changes that Mr. Gorbachev has proposed—and some the least noticed and least well understood—have been proposals for economic reform.

Some of these reforms are supposed to make it easier to export to the soviet Union. Of course, it is not a one-way offer. I have not yet heard anyone accuse Mr. Gorbachev of being stupid. Mr. Gorbachev has also been asking for improved access to western markets and membership in western economic institutions.

If the Soviet Union were truly open on trade, it would be ideal, but we cannot be idealistic about economic reform in the Soviet Union. It is important for us neither to overrate recent economic developments in the Soviet Union nor to underrate them. We must be realistic.

That means recognizing that Mr. Gorbachev has proposed real changes, but he has not proposed to make his country over into a Western market economy. That may not be ideal, but can we do business on that basis?

Our economic competition in the European Community certainly think they can do business on that basis. They are negotiating a new trade agreement with the Soviet Union.

In fact, over the last few years, we Americans have been able to work out trade agreements covering wheat, corn and soybeans with the Soviets, agreements that mesh our market with the centrally planned economy of the Soviet Union. Three-fourths of our exports to the Soviet Union occurs under these agreements.

So once we are satisfied on human rights and national security, we have to look to what we can do in this situation to improve the welfare of the American worker and farmer.

All these issues directly concern this Committee.

The Jackson-Vanik amendment is a provision of the Trade Act of 1974. Waivers of the Jackson-Vanik amendment are reviewable here, in this Committee.

We also have the responsibility in the Senate for trade.

The Trade Act of 1988 gives us the power to review the question of GATT membership for the Soviet Union, and it also makes revision of GATT rules on state trading a priority for the Uruguay Round. Any trade agreement negotiated by the Administration with the Soviet Union will be reviewable in this Committee, and any changes in Section 406 will have to be considered by this Committee.

That is why I have asked Secretary Baker to brief us on economic relations with the Soviet Union.

Mr. Secretary, I believe this is your first opportunity to report to a Committee of Congress on your discussions in Wyoming with Mr. Shevardnadze. Welcome. This Committee is ready to work with the Administration on economic relations with the Soviet Union.

SPEECH BY SENATOR BILL BRADLEY TO THE WORLD FINANCIAL SUMMIT, SEPTEMBER 27, 1989, WASHINGTON, D.C.

It is fair to say that we've all been surprised by the pace of change in the Soviet Union and Eastern Europe. East and West have compelling common interests in seeing the East dismantle centralized controls that strangle their economic and political life. For example, in the Soviet Union economic and political reformation could mean a much smaller Soviet military and a much more open society. Among other things, as Soviets transfer resources from the military to the civilian sector of their economy, it could free up Western defense resources for protecting the envi-

ronment and improving the lives of our own citizens. So we all have a big stake in its success.

Yet today, four years after Mikhail Gorbachev took power, the crucial issue facing Soviet reformers remains: How to move from a centrally planned, autocratically controlled economy which allocates resources at the dictates and whims of the party, to an open economy which allocates resources according to rational economic judgment, reliance on a modified market mechanism and sensitivity to consumers wishes. Also we have to remember that the worsening economic situation makes more difficult already formidable political challenges such as ethnic and regional conflicts, power struggles between the party and the new legislative bodies, tensions between Moscow and the Republics, and loss of confidence in the current local leadership. Even the most seasoned politician sees a multidimensional crisis on the horizon without a credible plan for making things better economically.

Even committed reformers now accuse the leadership of bungling and deception and advocate more radical reform, including a sizable role for private property rights. But thinking through the correct steps to liberalize an economy as big and backward as the Soviet Union is a daunting task. Implementing a plan of transition is even more difficult.

What role can the West play in the period of transition? First and obviously, we can't dictate solutions to the Soviets. But at a time when the Soviets are genuinely assessing what it means to be a member of the international economy and what domestic economic changes that would require, we should mobilize resources and expertise for them to draw on, and above all, we should be honest with them about how tough it is to compete in an open world economy. Unfortunately, we have no plan, no clear policy; we haven't done our homework; and we respond incoherently when they ask for advice.

Many Western observers tell the Soviets that freeing prices now is the key to curing their economic ills. Many Soviets economists disagree. Their reason, households and enterprises have hundreds of billions of rubles for which there's no legal use. Why? Because there's been weak financial discipline at the enterprise level and little fiscal control on the state's part (that's why, as a share of GNP, their budget deficit is several times bigger than ours). In other words, money and credit have been flowing freely in response to political pressure. Households and enterprises have hundreds of billions of rubles for which there's no legal use. Unless this so-called monetary overhang is eliminated, Soviet economists believe that freeing prices will generate high inflation and reduce the efficiency gains from market pricing. Freeing prices may be essential. But shrinking the monetary overhang comes first.

Western guidance about how to do these things has collapsed into a cacophony of often self-serving voices. Joint venturers clamor for free trade zones. Western investors and traders eager to make foreign policy, while eliminating risk, urge credits and guarantees. Academics and "intellectuals" inside and outside government suggest pet theories: privatize the auto industry, sell off apartments to individuals, go to a gold-backed ruble and immediate convertibility. Still others push membership in international institutions such as GATT, IMF, and the World Bank as a symbol of goodwill even though the Soviets have not requested it and their economy has not yet met the criteria for membership. No wonder the Soviets are confused over where the West stands.

If we are serious about contributing, at least conceptually, to the reform efforts, we need much greater self-discipline and clarity in the advice we offer on managing the transition. We need to develop, for Soviet consideration, a series of steps to take them from a rigid, inefficient, totalitarian economy to something flexible enough, clear enough, understandable enough to allow the rest of the world to interact with them on relatively similar economic assumptions. The most important realization on the part of the Soviet government is that all the political goodwill in the West, all the willingness to pursue mutual arms reduction, all the diplomatic support and reassurance—will not be sufficient to bring their nation into the 21st century as a full participant in the world economic system unless they make tough economic decisions.

As I see it, the key to successful reform, by which I mean sustained improvements in living standards and an open, pluralistic society, is radically changing the role of the state bureaucracy in the Soviet economy. State orders must yield to subtler means of economic management. Enterprises, not Gosplan, must decide what to make, how to make it, what price to ask, and where to sell it according to their own best judgments of future demand. Consumers must be empowered to buy what they want from competitive suppliers. In this climate, only efficient enterprises would survive for long because the state couldn't afford to sustain losers like it does now.

In other words, the state must relinquish its hold over purchase orders, inventories, wage funds, and other details of economic activity. And start managing the big picture: the money supply, government revenues and expenditures to meet the objectives of stable prices, full employment, and fair income distribution. Conventional notions for many of us. Novel challenges for them. Only if they meet these challenges can there be a freely convertible ruble and decentralized foreign trade, without which the Soviet Union is doomed to stagnation with no prospect of productive engagement in the global economy of the 21st century.

Some of you may believe that such things as MFN treatment or membership in GATT will help, even if the Soviet Union doesn't become a more competitive, open economy. I disagree. Take GATT. If Soviets abide by relevant procedures and provide information on their pricing system, observer status in GATT might well be mutually beneficial. But full membership right now would be a mistake. Everyone acknowledges that the major hurdle to full Soviet membership is how to resolve the dumping issue—flooding markets with artificially low-priced goods. Some say that with goodwill on our part and some kind of "reformed" prices on theirs, this is a manageable problem. I believe that no amount of goodwill or vague price "reform" can insulate the Soviets from a charge of dumping. Only close to market pricing can do that. To improve living standards, Soviets must understand that economic changes must accompany the political acceptance that membership represents. Without that understanding, they might achieve political parity but remain hopelessly mired in a stagnant economy. Without market pricing to enforce the commitment to improved quality of goods and advances in economic efficiency, Soviet participation in international economic institutions will be one big headache for everyone. Moreover, without greater efficiency and quality goods, they won't produce much the West wants, aside from their traditional exports: gold, arms, and fossil fuels.

The most important point to remember is that this kind of evolution toward a different political economy can't be imposed by fiat from above or revolution from below. It demands a process of politically motivated change that must be openly debated. That's why the Congress of Peoples' Deputies and the new Supreme Soviet are so important. Remember General Secretary Gorbachev talks about three things: perestroika, glasnost, and democratization. They are all related and necessary. But democracy moves slowly, especially when new institutions must be built.

For example, think about creating a whole new tax system that will promote efficiency and social justice as well as raise revenues. I met the deputy from the Soviet Congress whose job it is. He knows that high tax rates on most taxpayers would be a big mistake, but he is starting from scratch. He needs help. We've got the expertise. We ought to put at his disposal, in a coherent way, the right resources on practical public finance. That way, he won't be running around Washington picking up reports at random—who knows if they'll ever get translated—on subjects that are completely irrelevant to current Soviet needs: "The Taxation of Leveraged Buyouts?" "Gifts of Appreciated Property under the Alternative Minimum Tax?" Obviously, there's got to be a better way.

If we believe as a great U.S. President, Thomas Jefferson, did that the power of example is the most influential leadership, then now is the West's opportunity. The Soviets genuinely are searching. Yet, strangely we seem confused and unwilling to state clearly how we organize economic activity—almost as we want to be yes-men in Gorbachev's political drama. He and we deserve better. Above all, we should be candid.

Government leadership should set the framework for the discussion and should articulate the path from old-line Soviet socialism to capitalism. If our governments abdicate that response to thousands of interests, then the message of economic hope embodied by a free, open, efficient, fair economic system will be lost among the cries of self-promotion and hucksterism for special interests. Our national interest and our relationship with the USSR would be advanced most thoroughly if we were honest about the necessity and rigors of competition just as we are full of hopes about the possibility of reduced defense spending and Soviet integration into the world economic system. Will our present leadership seize the day? I hope so.